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ABSTRACT

Transcripts of the hearings held on April 28 and May 12, 1977 include the statements of the Assistant Secretary for Education (Mary Berry), congressional representatives, representatives of national student and higher education associations, and additional information and statements submitted for the record by federal officials, college presidents, congressional representatives, association representatives, and other individuals. (MSE)

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ED142136

COLLEGE TUITION TAX CREDITS

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HEARINGS

BEFORE THE

TASK FORCE ON TAX EXPENDITURES, GOVERNMENT ORGANIZATION AND REGULATION

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

APRIL 28 AND MAY 12, 1977

Printed for the use of the Committee on the Budget

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COLLEGE TUITION TAX CREDITS

THURSDAY, APRIL 28, 1977

House of Representatives,
Task Force on Tax Expenditures, Government
Organization and Regulation,
Committee on the Budget,
Washington, D.C.

The task force met, pursuant to notice, at 9:47 a.m., in room 210, Cannon House Office Building, Hon. Paul Simon, chairman of the task force, presiding.

Present: Representatives Simon and Conable.

Mr. **Simon**. The task force will come to order.

I might explain to our witnesses and others—we were just about to start.

Mr **Conable**. I was just about to arrive.

Mr. **Simon**. I thank you. Our apologies for getting this late start but we did not adjourn the House until 12:45 a.m.

Mr. **Conable**. It did involve the work of this committee.

Mr. **Simon**. It did involve the work of this committee. I hope you forgive our tardiness.

The hearings being conducted this morning and tomorrow morning by the Budget Committee Task Force on Tax Expenditures, Government Organization and Regulation will address the issue of Federal tax allowances or tax credits for the costs of higher education. Our purpose is to compare this approach with current programs of direct grants and loans for student assistance and, hopefully, draw some conclusions about the best program or mix of programs for the Government to adopt.

This hearing is being held under the Budget Committee's statutory responsibility: To request and evaluate continuing studies of tax expenditures, to devise methods of coordinating tax expenditures, policies and programs with direct budget outlays, and to report the results of such studies to the House on a recurring basis—Budget Act, section 101(c).

I might add I have discussed this whole matter with the chairman of the Ways and Means Committee, and of course the Ways and Means Committee is represented on this task force by, among others, Representative Barber Conable from New York.

There are over 50 separate measures currently pending in the House and Senate which would grant tax relief for college costs.

Amendments providing tax relief or credits for higher education expenses passed the Senate in 1967, 1969, 1971, and twice in 1976, but none of these amendments was finally enacted into law. Most of these current proposals are aimed at assisting students from middle-income families.

It might be worthwhile to briefly note the history of Federal student assistance programs. Direct assistance began with the National Defense Education Act student loan program in 1958. Work-study grants were instituted in 1964, followed by guaranteed loans, interest subsidies and the basic opportunity grant program in 1965. All of these programs were substantially expanded in the 1970's and they now provide a total of $2.9 billion a year in assistance. The grant programs, of course, are aimed primarily at students from families with low and moderate incomes, while the loan programs are designed to aid students and families with moderate incomes. That is where we currently stand.

The proposed legislation for tax credits for higher education expenses raise important issues of both education policy and tax policy which we hope to address in the next 2 days of hearings. The fundamental question, however, is one of budget priorities. Should student assistance programs be expanded and, if so, to what level? Should the Federal Government provide additional assistance to middle level income families? Should we use the tax system to provide student assistance or should we use some other mechanism? What are the advantages of using the tax system instead of simply extending the coverage of the current program of grants, loans, and work-study? Our responsibility, of course, is to see that the revenues of the Government are spent wisely, carefully, and productively.

Our witnesses this morning will be Ms. Mary Berry, Assistant Secretary of Education, Department of Health, Education, and Welfare; Laurence N. Woodworth, Assistant Secretary for Tax Policy, Department of Treasury, and Dr. Henry Paley, president of the Coalition of Independent Colleges and Universities.

Tomorrow we will hear from several Congressmen and Senators who have introduced bills to provide higher education tax allowances. Senator William Roth, Jr., and Senator Richard S. Schweiker will testify, as will Congressmen Tom Corcoran, Philip Crane, and Abner Mikva. In addition, Congressmen Lawrence Coughlin, James Delaney, and Herbert Harris, and Senator Ernest F. Hollings have agreed to submit written testimony for the record.

In addition, we will hear from Dr. Edward J. Bloustein, president of Rutgers University, speaking for the National Association of State Universities and Land Grant Colleges; Mr. David Rosen, legislative director of the National Student Lobby; Lawrence Zaglaniczny—pronounced Sa-glan-ne-see—national director, Coalition of Independent College and University Students, and Dr. Kenneth Shaw, president, Southern Illinois University, Edwardsville, Ill.

Time limits have prevented us from hearing all of those who are interested in the issue of higher education tax allowances, but we invite and welcome written statements from those interested persons or organizations. The record will remain open through May 15 for that purpose.

Our first witness is Ms. Mary Berry. Also there at the witness table is Laurence Woodworth. Perhaps you can introduce the others there.

STATEMENT OF MARY BERRY, ASSISTANT SECRETARY FOR EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY DR. DAVID BRENEMAN, DEPUTY ASSISTANT SECRETARY FOR EDUCATION FOR POLICY DEVELOPMENT; LINDA CHAVEZ, SPECIAL ASSISTANT TO THE DEPUTY ASSISTANT SECRETARY FOR LEGISLATION (EDUCATION), DHEW, AND CONNIE STUART, SPECIAL ASSISTANT TO THE ASSISTANT SECRETARY FOR EDUCATION, DHEW

Ms. **Berry**. Thank you very much, Mr. Chairman.

I am accompanied by Dr. David Breneman, Deputy Assistant Secretary for Education for Policy Development at my right, and Ms. Linda Chavez, Special Assistant to the Deputy Assistant Secretary for Legislation, and Connie Stuart, Special Assistant in my office.

Mr. Chairman, I appreciate this opportunity to share with you the Department's views on a college tuition tax credit. In a letter to Senator Edward Kennedy on March 31, Secretary Califano delineated the Department's position on a tuition tax credit proposal pending in the Senate. I am including a copy of that letter for the record.

[The letter referred to by Ms. Berry follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
March 31, 1977.

Hon. EDWARD M. KENNEDY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR KENNEDY: I am writing in response to your request for an analysis of proposals for the use of tuition tax credits to provide aid to families with college age students.

There is no question but that college costs are rising and that many families must make hard choices to finance a college education. Reduction in the family's standard of living or increased borrowing is often necessary to meet educational expenses. However, there are many combinations of grant and loan programs which would deal with that problem better and more fairly than a program of tuition tax credits, by distributing assistance according to the severity of the particular family's problem. For example, a highly paid professional sending his child to a low-tuition community college would get as large a benefit under some proposals as a blue collar worker sending his child to an expensive private college with no other aid. A family with income so low that it pays no tax would receive no aid at all. The "solution" proposed by such legislation badly matches the problem.

This, of course, implies an answer to your question regarding whether such a program would target Federal funds to those who need assistance. Such grants would have little relationship to need because almost all students, even those attending low-tuition public institutions, incur sufficient tuition charges and other expenses to be eligible for the maximum credit. A reduction in the allowable credit would occur only where the student received grant or scholarship assistance, and, since today most grants and scholarships are awarded on the basis of need, such a reduction would almost always result from receipt of a need-based grant or scholarship.

A direct, targeted grant program in which both family ability to pay and costs of attendance determine the amount of the student's grant is a desirable way of equalizing educational opportunities, and is highly complementary to loan programs. However, for many of the upper-middle income families which would likely benefit from a grant program such as the tax credit proposal, I suspect a loan program would be preferable. What they need most is to spread college costs over an extended number of years, as is currently done under the Guaranteed Student Loan program. I think most of these families when faced with large college costs in a particular year, would prefer a $2,500 long term 7 percent loan to a $250 to $500 grant. Where the issue is not ability to pay, but convenience, I believe the loan alternative becomes the more desirable.

The distribution of benefits under a grant program patterned after some proposals would appear to be inequitable among income groups. Benefits would be largely the same, despite differences not only in college costs, but also in income. We estimate that at least 60 percent of tax credit benefits would probably go to families with incomes of $18,000 or more—which are considerably better off than the national average. Further, only 30 percent of the benefits would go to families sending children to private colleges, although they have almost 60 percent of the financial need of all families likely to benefit from the credit.

You ask whether the proposed program would be consistent with policies underlying present direct Federal expenditures for education. It would be a radical departure. Two factors presently determine the amount of aid a student receives from Office of Education programs: the family's ability to pay, and the cost of the chosen college. When ability to pay is subtracted from cost, we have need, and in this sense all the Office of Education programs are need based. Perhaps, as some argue, different ways of determining need should be considered, or assignment of responsibility for meeting need among different programs could be improved. I cannot, however, imagine endorsing a student grant program which would completely discard need as a relevant factor in the manner of some tuition credit proposals.

Sincerely,

JOSEPH A. CALIFANO, Jr.

Ms. BERRY. The notion of a tax credit for costs incurred by families with dependents attending postsecondary institutions is not a new one. One version of such a proposal was passed by the Senate last year as part of the Tax Reform Act of 1976. As you know, the provision was dropped in conference. Although this committee does not have before it a particular college tuition tax credit bill, it is my understanding that these hearings are designed to explore what role, if any, such a proposal might play in an overall program of Federal support for higher education.

Current policy on Federal student financial aid is to provide assistance based on need. Need is determined by subtracting the cost of attending a chosen institution from a family's ability to pay for that cost. The administration believes that, given limited Federal dollars for aid to higher education, the current policy represents the best course to pursue. A college tuition tax credit would mark a dramatic and, we feel, unwise shift in that policy.

Students from varying economic backgrounds participate at different rates in the several Federal grant, loan, and loan interest subsidy programs. For example, the title IV programs have generally served a greater proportion of lower-income students than middle-income students, but the pattern of distribution varies among them. Since its inception, the basic grant program has had the lowest income distribution of the Federal programs, followed next by the supplemental educational opportunity grant program. The guaranteed student loan program, which was enacted primarily as a loan of convenience for middle-income families, has recently had the third lowest income distribution of the Federal student aid programs. Progressively higher income ranges are served by the college work-study, national direct student loan, and State student incentive grant programs.

A comparative chart for academic year 1975–76, the most recent year for which reasonably satisfactory data are available, is attached.

[The information referred to follows:]

TABLE 1.—ESTIMATE PERCENTAGE INCOME DISTRIBUTIONS OF FEDERAL STUDENT FINANCIAL AID RECIPIENTS BY FAMILY INCOME IN ACADEMIC YEAR 1975-76

	Basic grant	SEOG	CWS	NDSL	SSIG	GSLP
0 to $3,000	29.7	21.3	16.3	13.2	36.1	22.8
$3,000 to $6,000	26.5	28.1	21.6	17.6	36.1	24.2
$6,000 to $9,000	20.1	27.2	22.1	20.9	18.8	21.6
$9,000 to $12,000	13.7	14.6	17.7	19.2	16.4	17.9
$12,000 to $15,000	10.0	8.8	22.3	29.1	13.8	11.0
Above $15,000		8.8	22.3	29.1	14.9	2.5

NOTES

1. Percentage distributions for basic grant recipients are derived from the eligible applicant data base for 1975-76.
2. Data for the SEOG, CWS, and NDSL programs are derived from the income distribution of undergraduate dependent students on the fiscal year 1975 fiscal-operations reports; fiscal year 1976 data are not expected to vary greatly.
3. SSIG program data are derived from the 1975-76 performance reports submitted by State agencies.
4. Data for the guaranteed student loan program are interpolated from sample data collected in somewhat different income categories. Because the GSLP definition of family income is the most divergent from that of the other programs, exactly comparable data are not available. The distribution shown is therefore only approximate in terms of comparison with the other programs.

Ms. BERRY. In the education amendments of 1976, the Congress recognized that increasing costs for postsecondary education are making it more difficult for middle-income families to send their children to school. For that reason, the Congress enacted new eligibility requirements for certain programs which, when fully implemented, will make it easier for students from middle-income families to receive aid. Under the new law, the guaranteed student loan program will provide loan interest subsidies to students whose families earn up to $25,000 a year. Similarly, changes in the assets tests for various Federal financial assistance programs will make more families eligible for aid. The increase in the maximum parental contribution level at which students can qualify for the basic educational opportunity grant will extend program eligibility to students from somewhat higher income families than in the past.

As the Secretary stated in his letter to Senator Kennedy:

> There are many combinations of grant and loan programs which would deal with (the) problem (of middle-income families) better and more fairly than a program of tuition tax credits, by distributing assistance according to the severity of the particular family's problem.

Proponents of the tuition tax credit argue that it would be a means of providing additional aid to higher education without going through the normal appropriations process. However, according to the estimates by the Congressional Budget Office, a tax credit of $500 would cost $2 billion in lost tax revenues by fiscal year 1980. The credit would not be hidden aid to higher education as its advocates claim but, rather, part of the overall budget which must be taken into account, not only funds appropriated but also tax expenditures dispersed by the Treasury through the tax system.

Advocates of the tuition tax credit also argue that it would provide substantial aid to private institutions. Under most tax credit proposals the same amount of credit would be applicable for tuition paid at both public and private institutions. There would be no incentives for families to choose private institutions over public ones, nor would the amount of tax relief provided to the family be sufficient to increase significantly the number of students able to attend postsecondary institutions. However, the tuition tax credit proposal seems one of the least effective and surely one of the least equitable means. This task force has a formidable job to do in analyzing the impact of various tuition tax credit proposals which may be under consideration by the Congress.

I hope that our testimony will aid you in those deliberations.

In stating the Department's position on tuition tax credits for higher education, I point out that Secretary Califano outlined what our position is in a letter sent to Senator Edward Kennedy on March 31, and a copy of that letter is included in my prepared testimony for the record.

The idea of a tuition tax credit, as you pointed out in your opening remarks, is not a new one. One version was passed last year by the Senate as part of the Tax Reform Act and dropped in conference. In general terms, our position is that we are opposed to the idea of a tuition tax credit proposal as educational policy. That in general is our position.

Our current policy on student financial aid is to provide assistance based on need. We believe a tuition tax credit would be a radical departure, and an unwise policy decision. We do have a number of programs, as you outlined also in your opening remarks, providing aid or subsidies to education in connection with the college tuition tax credit. I call special attention to the guaranteed student loan program enacted primarily as a convenience for middle-income families. These are precisely the families that are talked about in connection with the college tuition tax credit.

In the education amendments of 1976 the Congress, recognizing the increasing costs of postsecondary education that make it more difficult for middle-income families to send their children to school, did change the eligibility requirements for the guaranteed student loan program to make it easier for students from middle-income families to receive aid. Under this new law the guaranteed student loan program provides interest subsidies to students whose families earn up to $25,000 a year. So that we do have a provision available to try to meet the needs of those middle-income families.

We think that there are a variety of ways of trying to meet the needs of those middle-income families and that some combination of the available grant-loan programs could deal with the problem, perhaps with some adjustments where necessary, but in general a tuition tax credit is not the approach to take.

Some people who favor a tuition tax credit argue that it would be a way of providing aid to higher education without going through the normal appropriations process, with all of its difficulties. But the Congressional Budget Office estimates that a tax credit of $500 would cost about $2 billion in lost tax revenue by fiscal year 1980. So this credit would not be hidden aid to higher education as some people claim, but it would be attributed as funds available for education among the tax expenditures disbursed by the Treasury through the tax system. So we are talking about $2 billion in lost revenue with the credit of $500 by fiscal year 1980. Some other people who would like a tuition tax credit or support the idea argue that it would help private institutions.

Among the proposals that we have seen, most of them do not make separate provisions for public and private institutions. They make the same amount of credit available for both. Therefore, there would be no incentive that we can see for families to choose private over public institutions. We do not believe the amount of tax relief provided to the family would be sufficient to increase the number of students who would be able to attend postsecondary education significantly. We know there is a problem with middle-income families and higher education, although we point out that the cost of attending higher education, as they have increased the incomes of such families have also increased over the last few years. We know it is a serious problem. We think that the tuition tax credit proposal would be perhaps the least effective and one of the last equitable means of solving the problem.

In effect, what we are asking is whether we want to spend the next $1.5 billion or $2 billion of the costs attributed to education in the tax structure on this program or on something else. That is essentially what we are asking. We are saying we do not believe we do.

Thank you very much, Mr. Chairman.

[The prepared statement of Ms. Berry follows:]

PREPARED STATEMENT OF MARY BERRY, ASSISTANT SECRETARY FOR EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. Chairman, I appreciate this opportunity to share with you the Department's views on a college tuition tax credit. In a letter to Senator Edward Kennedy on March 31, Secretary Califano delineated the Department's position on a tuition tax credit proposal pending in the Senate. I am including a copy of that letter for the record (see p. —).

The notion of a tax credit for costs incurred by families with dependents attending postsecondary institutions is not a new one. One version of such a proposal was passed by the Senate last year as part of the Tax Reform Act of 1976. As you know, the provision was dropped in conference. Although this committee does not have before it a particular college tuition tax credit bill, it is my understanding that these hearings are designed to explore what role, if any, such a proposal might play in an overall program of Federal support for higher education.

Current policy on Federal student financial aid is to provide assistance based on need. Need is determined by subtracting the cost of attending a chosen institution from a family's ability to pay for that cost. The administration believes that given limited Federal dollars for aid to higher education, the current policy represents the best course to pursue. A college tuition tax credit would mark a dramatic and, we feel, unwise shift in that policy.

Students from varying economic backgrounds participate at different rates in the several Federal grant, loan, and loan interest subsidy programs. For example, the title IV programs have generally served a greater proportion of lower income students than middle-income students, but the pattern of distribution varies among them. Since its inception, the basic grant program has had the lowest income distribution of the Federal programs, followed next by the supplemental educational opportunity grant program. The guaranteed student loan program, which was enacted primarily as a loan of convenience for middle-income families, has recently had the third lowest income distribution of the Federal student aid programs. Progressively higher income ranges are served by the college work-study, national direct student loan, and State student incentive grant programs. A comparative chart for academic year 1975-76, the most recent year for which reasonably satisfactory data are available, is attached.

In the Education Amendments of 1976, the Congress recognized that increasing costs for postsecondary education are making it more difficult for middle-income families to send their children to school. For that reason, the Congress enacted new eligibility requirements for certain programs which, when fully implemented, will make it easier for students from middle-income families to receive aid. Under the new law, the guaranteed student loan program will provide loan interest subsidies to students whose families earn up to $25,000 a year. Similarly, changes in the assets tests for various Federal financial assistance programs will make more families eligible for aid. The increase in the maximum parental contribution level at which students can qualify for the basic educational opportunity grant will extend program eligibility to students from somewhat higher income families than in the past.

As the Secretary stated in his letter to Senator Kennedy, "there are many combinations of grant and loan programs which would deal with [the] problem [of middle-income families] better and more fairly than a program of tuition tax credits, by distributing assistance according to the severity of the particular family's problem."

Proponents of the tuition tax credit argue that it would be a means of providing additional aid to higher education without going through the normal appropriations process. However, according to estimates by the Congressional Budget Office, a tax credit of $500 would cost $2 billion in lost tax revenues by fiscal year 1980. The credit would not be "hidden" aid to higher education as its advocates claim, but rather part of the overall budget which must take into account not only funds appropriated but also tax expenditures dispersed by the Treasury through the tax system.

Advocates of the tuition tax credit also argue that it would provide substantial aid to private institutions. Under most tax credit proposals the same amount of credit would be applicable for tuition paid at both public and private institutions. There would be no incentives for families to choose private institutions over public ones, nor would the amount of tax relief provided to the family be sufficient to increase significantly the number of students able to attend postsecondary education.

There are no easy answers to address the problems of middle-income families with dependents attending postsecondary institutions. However, the tuition tax credit proposal seems one of the least effective, and surely one of the last equitable means. This task force has a formidable job to do analyzing the various tuition tax credit proposals before it. I hope that our testimony will aid you in those deliberations.

Mr. SIMON. Thank you.

I think before we get into questions we will also ask the gentleman from the Treasury Department to testify and then we will move into the question process.

STATEMENT OF HON. LAURENCE N. WOODWORTH, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY; ACCOMPANIED BY EUGENE STEUERLE, OFFICE OF TAX ANALYSIS, TREASURY DEPARTMENT

Mr. WOODWORTH. With me is Eugene Steuerle from the Office of Tax Analysis of the Treasury Department.

I find that I am in complete agreement with the remarks I just heard Ms. Berry testify to. I am of course here because this is a tax expenditure item, not because I have any expertise in the area of education as such. I do not want to convey by reference to the tax expenditure that the purpose of this program is necessarily without merit. What I do wish to emphasize is the tax expenditures are just one means of Government finance.

In this case we believe they should be examined in the context of total spending for postsecondary education. In fact, I hope the committee will compare this expenditure with all other claims on Federal resources—expenditures or tax reductions—and will consider the tradeoffs involved in choosing one program over another.

Most bills which provide for tuition credits involve substantial losses of tax revenue. For example, we estimate that the revenue cost of a nonrefundable tuition tax credit of $250 would be in the neighborhood of $1.1 billion, while a similar credit of $500 would cost $2.2 billion at 1977 income levels but in a full year of operation.

Once a credit of this size is adopted it could be expected there would be continuing efforts to increase it, first to $1,000, then to $2,000 and subsequently to still higher levels. This program could easily become a major drain on Federal revenues. The Treasury Department does not oppose incentives for investment in education per se, but we do believe that, given the current system of assistance for higher education, there are more pressing needs in the economy for other expenditures, tax reductions, and reforms that would do more to increase the equity of our tax system.

As you know, my office is engaged in a comprehensive study of tax reform and is cooperating with the Department of HEW in a study of the tax aspects of welfare reform. Many of these reforms may not be possible if there is a large increase in expenditures or tax reductions for other purposes. I hope then that in your consideration of the current proposals you will give due weight not only to what you may be including in the tax code but what you also may be precluding, as well.

I have made the comment that there may be better expenditures of the Federal tax dollar than the adoption of a tax credit for education expenses of higher or vocational education. In part this observation was made because of existing governmental expenditures for higher education. Exclusive of tax expenditures a Congressional Budget Office study estimates that the Federal postsecondary education budget provides for direct outlays of some $12.7 billion for fiscal year 1977. In addition, current tax expenditures for higher education will approach about $3.8 billion for fiscal year 1977. Thus in total the Federal Government will directly and indirectly provide funding on the order of $16.5 billion a year to higher education.

These Federal expenditures toward higher education have not remained stagnant, but have increased substantially over the last few years. For instance, outlays under higher education programs administered by the Office of Education have more than doubled from fiscal year 1970 to fiscal year 1977. Not only has Government assistance increased over recent years, but family income has risen as well. In fact, median family income has risen at a rate comparable to increase in gross student charges at institutions of higher education for the years 1967 to 1976. Recently the rate of growth of income has accelerated while the rate of growth in student charges has slowed down—in part, of course, because we are still in a recovery period from the last recession.

I make these observations not because I believe there are no financial difficulties associated with undergraduate or vocational education, but because I believe it is important to recognize that in recent years governments at all levels have responded to increased costs of higher education with increased assistance and expenditures.

I would like to spend the remainder of my time in discussing the implications of an education tax credit and its effect on tax simplification, resource allocation, and tax equity. I think it is important to emphasize that a proposal for tuition tax credits moves away from the objective of simplifying our tax system. This is a major objective of the current administration and this is something we consider a very important problem with the tuition credit.

There is a tendency, I might say, on the part of Congress to think up various and sundry good ideas and then suggest a tax credit for them. It used to be a deduction. In recent years it is shifting toward credits. If this process continues, we are soon going to have to have a whole page on the tax return for nothing but provision or allowance of one credit after another, as well as other backup sheets to indicate how each particular credit is computed. In terms of tax effect, it really can be a serious matter.

If a tuition tax credit were adopted, the number of credits would increase and a new tax schedule would be required. Moreover, this kind of credit requires considerable recordkeeping by the taxpayer or the Internal Revenue Service, particularly since any legislation would provide for a lifetime maximum credit for each taxpayer. I think you can see this would be a difficult thing for the Internal Revenue Service to keep track of. If you ask the taxpayer to keep track of the credit, it would be more convenient for him not to keep records because it cuts to his disadvantage, rather than advantage, in so doing.

Given the existing number of programs for assistance for students in institutions of higher education, I doubt seriously that an additional education tax credit would simplify the Government's overall role in the field of education.

The Secretary of HEW recently announced a plan to consolidate student aid programs currently administered by HEW. This bill counters that drive toward simplification and consolidation of Federal assistance to higher education by, first, increasing the number of programs and, second, moving the administration of the program away from the agency of the Federal Government responsible for trying to bring some consistency and rationality to the existing program structure.

I might point out at this time that most of the bills in this area impose a number of duties on the IRS in determining what constitutes a qualified education program. This is a function in which the Internal Revenue Service does not have particular expertise, and is one which, in our opinion, is much better left to HEW than the IRS.

One reason for providing a tax credit for tuition and other educational expenses may be the belief that there is currently insufficient investment in higher education. It is not clear that this is the case. But I would like to add at this point, even if that were true, providing for it through a tax credit is not necessarily the best way to proceed.

The cost of higher education has been substantially lessened by both Federal assistance and by provision for public education by States and localities. Moreover, even if there were underinvestment in education, there is no evidence that such lack of investment lies in the field of higher education.

For many individuals the primary source of education is obtained at work or through some form of continuing education. We should also note that Government aid is more likely to increase investment in higher education if it is designed to assist those who are at the margin of a decision as to whether they should attend college or not. Since poor families are more likely to be at the margin, programs aimed at these families are more likely to increase investment in education per dollar spent than are programs which provide equal benefits to all families.

In fact, for a family which invests the same amount of money in higher education, regardless of the credit, the credit ends up providing resources for their consumption of food, clothing, recreation, or some other goods. I think this is an important point—what this really means is that more funds in the higher income tax brackets would be available for purposes other than education, since you can expect that higher income taxpayers would make the sacrifices and see to it that their children were educated in any event and simply cut back in other areas. The credit then becomes middle-income tax relief, not a subsidy for education. Middle-income tax relief may well be desirable, but it is doubtful whether it should be given only to those with children in college. Many others have large expenses attributable to other needs as well.

I might add that we are giving serious consideration to this area in the tax reform legislation we are preparing at the present time.

Finally, some of the credits would be shared with the institutions of learning through higher tuition charges. In the simplest case we would certainly expect that the amount of credit would set a floor on the tuition charge of eligible institutions. Beyond that, it is apparent that a rise in tuition by the amount of the credit would leave the net burden of the recipient families exactly the same. In any case, as with most subsidies, it can be expected that some of the benefits of the subsidy would go to the suppliers of the services—the colleges and universities—as well as the students and their families, and thus that some of the tax credit would be reflected in higher tuition cost. In case of publicly supported higher education, the credit may in fact indirectly substitute Federal support, because costs that would otherwise have to be met by State or local taxes could then be met by higher tuition charges which are, in effect, paid for by the Federal Government.

Most of the arguments that I have heard for a college tuition credit are based on the implicit equity argument that without such relief, middle-income Americans will be priced out of the market for higher education. A closer look at the equity considerations leads to the conclusion that a tax credit for tuition and related expenses would be an inappropriate tool to provide such relief. Again, I am not saying that tax relief for middle-income families is not needed, but rather, I am questioning whether it should be available only to those with children in college.

First, as I noted before, student charges, net of Federal assistance, have declined as a percent of median family income over the past 9 years. It is not clear that the median income family supporting a student in college is more deserving of relief now than formerly.

Second, a tax credit generally grants equal relief to taxpaying families regardless of their need. I believe a program based upon ability to pay of the taxpayer would be better targeted to meet the needs of our citizens. An across-the-board tax credit is inferior to programs of targeted grants or loans in meeting the goal of equalizing educational opportunities.

Third, the typical recipient of the tax credit would be wealthier than the average citizen. In 1975 the median family income of families with an 18- to 24-year-old dependent in college was more than $4,000 greater than the median family income of all families with an 18- to 24-year-old dependent and more than $6,000 a year greater than the median family income of all families. In a sense the tax credit might be viewed as providing relief to upper middle-income taxpayers for the temporary liquidity problem associated with the transfer of wealth to children through the payment of educational expenses. In fact, in the absence of offsetting changes in the tax structure, the tax expenditure would increase the share of taxes borne by lower income families.

There is a further technical difficulty in bills of this type and I think I have already mentioned it, that the IRS is hardly the correct institution to determine if the various schools meet the necessary requirements for the tax credits.

Let me summarize the Treasury Department's position on the use of tax credits for educational expenses of higher education. We question the value of adding another assistance program for higher education onto the existing structure of programs. We believe the total complex of programs for higher education should be examined as a whole and the adoption of another tax expenditure would work at cross-purposes to that goal. We are not convinced that the average student or his family is in greater relative need of assistance than he was 10 years ago. We believe the Government assistance to higher education has increased quite substantially over this period of time.

Also, on simplicity grounds we oppose the tax credit because the adoption of another tax expenditure would only further add complexity to the labyrinth of Federal tax expenditures for education and would further split program responsibility across agencies. On efficiency grounds, a tax credit subsidizes certain types of education while ignoring others and is an inappropriate means, in our opinion, of encouraging investment in education. On equity grounds, a tax credit grants benefits to recipients without regard to their needs, the amount of their expenditures for education, or the fact that these students and their families on average have higher incomes than the majority of Americans. Thank you very much.

[The prepared statement of Mr. Woodworth follows:]

PREPARED STATEMENT OF HON. LAURENCE N. WOODWORTH, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Mr. Chairman and members of the committee, I am pleased to appear here today to present the Treasury's views on bills such as S. 311 which provide a tax credit for the cost of tuition for higher education.

DIRECT EXPENDITURES VS. TAX EXPENDITURES

Let me start by observing that if the proposed legislation provided direct grants rather than tax credits for higher and vocational education, I would not be before you now. Were the credit to be paid directly to the institutions of higher education or directly to individuals without use of the tax system, then the programs under consideration here would be treated as expenditure items rather than tax reductions and the proposed legislation would not be a Treasury matter. It is because the potential recipient of the credit would file for the credit through the tax system that the issue is brought under the purview of the Treasury Department. But this does not change the fact that the bills before you today clearly call for expenditures from the Federal Government—albeit tax expenditures—and, I hope that you will consider them as you would any program that provided a direct disbursement of Federal funds.

I do not wish to convey by the term tax expenditures that the purpose of this program is without merit. What I do wish to emphasize is that tax expenditures are just one means of Government finance and, in this case, should be examined in the context of total spending for postsecondary education. In fact, I hope that the committee will compare this expenditure with all other claims on Federal resources—expenditures or tax reductions—and will consider the tradeoffs involved in choosing one program over the other.

REVENUE COST OF THE PROPOSALS

Most bills which provide for tuition tax credits involve substantial losses of tax revenue. For example, we estimate that the revenue cost of a nonrefundable tuition tax credit of $250 would be in the neighborhood of $1.1 billion, while a similar credit of $500 would cost $2.2 billion at 1977 levels of income (see table 1). Once a credit of this size is adopted it could be expected that there will be continuing efforts to increase it, first to $1,000, then to $2,000 and subsequently to still higher levels. This program could easily become a major drain on Federal revenues. The Treasury Department does not oppose incentives for investment in education per se, but we do believe that, given the current system of assistance for higher education, there may be more pressing needs in the economy for other expenditures, tax reductions, and reforms that would do more to increase the equity of our tax system. As you know, my own office is engaged in a comprehensive study of tax reform and is cooperating with the Department of Health, Education, and Welfare in a study of tax aspects of welfare reform. Many of these reforms may not be possible if there is a large increase in expenditures or tax reductions for other purposes. I hope, then, that in your consideration of the current proposals you will give due weight not only to what you may be including in the tax code but what you may be precluding as well.

TABLE 1.—REVENUE LOSS FROM NONREFUNDABLE 100-PERCENT TAX CREDITS FOR HIGHER EDUCATION BY ADJUSTED GROSS INCOME CLASS: FULL-YEAR EFFECT AT 1977 LEVELS OF INCOME AND ENROLLMENT [1]

Adjusted gross income class	Students benefiting (thousands)	Revenue loss by size of maximum credit (in millions)		
		$100	$250	$500
0 to $5,000	147	$7	$12	$16
$5,000 to $10,000	631	54	92	165
$10,000 to $15,000	1,236	100	206	381
$15,000 to $20,000	1,051	102	219	416
$20,000 to $30,000	1,430	128	320	630
$30,000 to $50,000	906	87	218	432
$50,000 to $100,000	269	27	68	135
$100,000 and over	44	5	12	25
Total	5,714	510	1,147	2,200

[1] Based on general provisions of S. 311 as introduced by Senator Roth, Jan. 18, 1977. Credit covers tuition, fees, books, supplies, and equipment for full-time undergraduate students, including those in vocational schools. Assumed to cover expenses incurred after Dec. 31, 1976.

TABLE 2.—ESTIMATED FEDERAL TAX EXPENDITURES FOR HIGHER EDUCATION, FISCAL YEAR 1977

[In millions of dollars]

Description	Revenue cost: Public institutions	Revenue cost: Private institutions	Revenue cost: Total
Deductibility of contributions other than bequests to education institutions[1]	580	200	780
Deductibility of bequests to education institutions	225	50	275
Unrealized capital gains on gifts and bequests to higher education	60	20	80
Parental personal exemptions and tax credits for student age 19 and over	240	475	715
Exclusion of scholarships and fellowships	110	110	220
Exclusion of GI bill benefits for higher education	40	150	190
Exclusion of student survivor benefits under social security	25	75	100
Subtotal, direct tax expenditures	1,280	1,080	2,360
Deductibility of State and local taxes[2]	30	1,020	1,050
Exemption of interest on general purpose State and local debt[2]	15	415	430
Subtotal, indirect tax expenditures	45	1,435	1,480
Total	1,325	2,515	3,840

[1] Includes some gifts to primary and secondary schools.

[2] Assumes that 9.5 percent of State and local general expenditures and debts are for higher education (Government Finances in 1973-74, p. 18).

Source: Emil Sunley, "Federal and State Tax Policies," paper prepared for the Brookings Conference on "Public and Private Higher Education," Nov. 11-12, 1976.

TABLE 3.—INCOME AND STUDENT CHARGES, 1967-76

Year	Median family income[1]: All families (1)	Median family income[1]: With 13- to 24-yr-old dependents (2)	Median family income[1]: With 18- to 24-yr-old dependents in college (3)	Per capita disposable personal income (4)	Total student charges (school year ending spring of year indicated): Public (5)	Total student charges (school year ending spring of year indicated): Private (6)
1967	$7,933	$9,228	$11,433	$2,740	$1,026	$2,124
1968	8,632	10,[illegible]69	12,550	2,930	1,064	2,204
1969	9,433	11,076	13,712	3,111	1,117	2,321
1970	9,867	11,485	14,396	3,348	1,205	2,533
1971	10,285	11,960	15,079	3,588	1,288	2,740
1972	11,116	13,062	16,048	3,837	1,357	2,917
1973	12,051	13,956	17,220	4,285	1,530	3,035
1974	12,836	14,624	18,634	4,639	1,566	3,163
1975	13,719	15,739	20,014	5,062	1,710	3,744
1976	14,547	16,897	21,918	5,494	1,882	3,981
Percent change, 1967-76	+83.4	+83.1	+91.7	+100.5	+83.4	+87.4
Estimated percent change, 1976-78[3]				+18 to +22	+11.9	+11.8

[1] Family incomes for all families are those reported in the Bureau of the Census March current population surveys. Family incomes for families with 18- to 24-yr-old dependents are those reported in the October current population surveys but projected to March levels of income for all families. The Bureau of the Census reports that for the above period, October median family income ranged from 82 to 86 percent of the median family incomes reported in March.

[2] Estimated.

[3] College Scholarship Service estimates for changes at 4-yr resident colleges.

Note: A census family is 2 or more persons related by blood, marriage, or adoption and residing together. All such persons are considered members of the same family. Cols. (2) and (3) are incomes of primary families. A primary family includes a head of the household, the wife, or married. Only those in which the 18 to 24-yr-old dependent is attending college full time are included in col. (3).

Source: "Survey of Current Business" and Congressional Budget Office, "Postsecondary Education: The Current Federal Role and Alternative Approaches (February 1977)," Bureau of the Census Current Population Reports, National Center for Education Statistics.

CURRENT GOVERNMENTAL EXPENDITURES FOR HIGHER EDUCATION

I have made the comment that there may be better expenditures of the Federal tax dollar than the adoption of a tax credit for educational expenses of higher or vocational education. In part, this observation was made because of existing governmental expenditures for higher education. Exclusive of tax expenditures, a Congressional Budget Office study estimates that the Federal postsecondary education budget provides for direct outlays of some $12.7 billion for fiscal year 1977. In addition, current tax expenditures for higher education will approach about $3.8 billion for fiscal year 1977 (see table 2). Thus, in total, the Federal Government will directly and indirectly provide funding on the order of $16.5 billion a year to postsecondary education.

These Federal expenditures toward higher education have not remained stagnant but have increased substantially over the last few years. For instance, outlays under higher educational programs administered by the Office of Education (subfunction 502) have more than doubled from fiscal year 1970 to fiscal year 1977.

FAMILY INCOME AND STUDENT CHARGES

Not only has governmental assistance increased over recent years, but family income has risen as well. In fact, median family income has risen at a rate comparable to the rate of increase in gross student charges at institutions of higher education for the years 1967-76 (see table 3). Recently, the rate of growth in income has accelerated while the rate of growth in student charges has slowed down—in part, of course, because we are still in a recovery period from the last recession. Combining the increase in family income with the increase in appropriations for student aid programs, a Congressional Budget Office study concluded that the charges faced by students from low- and moderate-income families net of Federal assistance have dropped as a percent of family income in the last 9 years, while, for middle-income families, the ratio of charges net of Federal assistance to family income has remained about the same.

I make these observations not because I believe that there are no financial difficulties associated with undergraduate or vocational education, but because I believe it important to recognize that in recent years governments at all levels have responded to increased costs of higher education with increased assistance and expenditures.

TUITION TAX CREDITS AS A POLICY TOOL

I would like to spend the remainder of my time before you discussing the implication of education tax credits for tax simplification, resource allocation, and tax equity.

Simplification Effects.—I think it is important to emphasize that a proposal for tuition tax credits moves away from the objective of simplifying our tax system. If a tuition tax credit were adopted, the number of credits would increase and a new tax schedule would be required. Moreover, this type of credit of necessity requires greater recordkeeping by the taxpayer and/or the Internal Revenue Service, particularly since any legislation would provide for some lifetime maximum credit for each taxpayer.

Given the existing number of programs for assistance for students in institutions of higher education, I doubt seriously that an additional education tax credit would simplify the Government's overall role in the field of education. The Secretary of Health, Education, and Welfare recently announced a plan to consolidate the student-aid programs currently administered by HEW. This bill counters that drive toward consolidation and simplification of Federal assistance to higher education by, first, increasing the number of programs, and, second, moving the administration of the program away from that agency of the Federal Government responsible for trying to bring some consistency and rationality to the existing program structure.

Allocation of Resources.—One reason for providing a tax credit for tuition and other educational expenses may be a belief that there is currently insufficient investment in higher education. It is not clear that this is the case. The cost of higher education has been substantially lessened both by Federal assistance and by provision for public education by States and localities. Moreover, even if there were underinvestment in education, there is no evidence that such lack of investment lies in the field of higher education. For many individuals, the primary source of education is obtained at work or from some form of continuing education.

We should also note that Government aid is more likely to increase investment in higher education if it is designed to assist those who are at the margin of a decision as to whether they should attend college or not. Since poorer families are more likely to be on the margin, programs aimed at these families are more likely to increase investment in education per dollar spent than are programs which provide equal benefits to all families. In fact, for a family which invests the same amount of money in higher education regardless of the credit, the credit ends up providing resources for their consumption of food, clothing, recreation, or some other good. The credit then becomes middle income tax relief—not a subsidy for education. Middle income tax relief may well be desirable but it is doubtful whether it should be given only to those with children in college. Many have large expenses attributable to other needs as well.

Finally, some of the credits would be shared with the institutions of learning through higher tuition charges. In the simplest case, we would certainly expect that the amount of the credit would set a floor on the tuition charges of eligible institutions. Beyond this, it is apparent that a rise in tuition by the amount of the credit would leave the net burden of recipient families exactly the same. In any case, as with most subsidies, it can be expected that some of the benefits of the subsidy will go to the suppliers of the services—the colleges and universities—as well as the demanders—the students and their families—and thus that some of the tax credit will be reflected in higher tuition costs. In the case of publicly supported higher education, the credits may indirectly substitute Federal support for State and local support.

Distributional Effects.—Most of the arguments that I have heard for a college tuition tax credit are based on the implicit equity argument that without such relief middle-income Americans will be priced out of the market for higher education. A closer look at the equity considerations leads to the conclusion that a tax credit for tuition and related expenses would be an inappropriate tool to provide such relief. Again, I am not saying that tax relief for middle-income families is not needed, but rather I am questioning whether it should be available only to those with children in college.

First, as I noted before, student charges net of Federal assistance have declined as a percent of median family income over the past 9 years. It is not clear that the median income family supporting a student in college is more deserving of relief now than formerly.

Second, a tax credit generally grants equal relief to taxpaying families regardless of their need. I believe that a program based upon *ability to pay* of the taxpayer would be better targeted to meet the needs of our citizens. An across-the-board tax credit is inferior to programs of targeted grants or loans in meeting the goal of equalizing educational opportunity.

Third, the typical recipient of the tax credit would be wealthier than the average citizen. In 1975, the median family income of families with an 18- to 24-year-old dependent in college was more than $4,000 greater than the median family income of all families with an 18- to 24-year-old dependent and more than $6,000 a year greater than the median family income of all families. In a sense, the tax credit might be viewed as providing relief to upper middle-income taxpayers for the temporary liquidity problem associated with the transfer of wealth to children through payment of educational expenses. In fact, in the absence of offsetting changes in the tax structure, the tax expenditure would increase the share of the taxes borne by lower income families.

ADMINISTRATIVE CONSIDERATIONS

There is a further technical difficulty contained in bills such as S. 311 that I believe deserve your consideration. The problem is one of enforcement. I do not believe that the Internal Revenue Service is the correct agency to police educational institutions to determine if their courses meet necessary requirements for tax credits.

CONCLUSION

Let me summarize the Treasury Department's position on the use of tax credits for certain educational expenses of higher education. We question the value of adding another assistance program for higher education onto the existing structure of programs. We believe that the total complex of programs for higher education should be examined as a whole and that the adoption of another tax expenditure would work at cross-purposes to that goal. We are not convinced that the average student or his family is in greater relative need of assistance than he was 10 years ago, and we believe that governmental assistance to higher education has increased quite substantially over this period of time.

Also on simplicity grounds we oppose the tax credit because the adoption of another tax expenditure would only add further complexity to the labyrinth of Federal expenditures for education and would further split program responsibility across agencies. On efficiency grounds, a tax credit subsidizes certain types of education while ignoring others and is an inappropriate means of encouraging investments in education. On equity grounds, a tax credit grants benefits to recipients without regard to their need, the amount of their expenditures for education, or the fact that these students and their families on average have higher income than the majority of Americans.

Mr. SIMON. We thank both of our witnesses.

Ms. Berry, a very fundamental question: There are those who say that we have overstressed college education, that the returns to the individual, returns to our economy as a whole are very minimal and therefore this is another reason for not moving in this direction. What kind of response would you give from your perspective to that?

Ms. BERRY. If one focuses on certain well-publicized facts concerning jobs and employment for college graduates in certain fields, the manpower or womanpower aspects, one might say that a student has not found his or her college education to be very valuable, if one has that kind of focus. Even with that kind of focus, it is not true that all fields of college education that have turned out to be economically not valuable to the recipient. It is also true that the focus on only the manpower and womanpower aspects are the reason for a college education, ignores the philosophy of education in terms of making it possible for people to enjoy life to the fullest, a value which one cannot always quantify. So on the manpower question it is not true that education in all fields is not of value. In some fields this may be the case, but that in itself focuses only on that peculiar aspect of it and that is not the true purpose overall of a college education.

Mr. Simon. I concur in that answer.

Mr. Woodworth, Representative Mikva has a tax deferment—you are talking about simplification—have you taken a look at that alternative at all?

Mr. **Woodworth**. Not to any appreciable extent. But I can assure you that a tax deferral could be very complicated to provide through the tax system. If you would like an analysis of that type of bill, I would like to submit it for the record.

Mr. **Simon**. We would appreciate having that.

[The analysis referred to follows:]

ANALYSIS OF CONGRESSMAN MIKVA'S BILL

The Mikva bill provides interest-free deferral of taxes equal to 75 percent of the first $1,000, 50 percent of the next $1,000, and 25 percent of the third $1,000 of "qualified expenses." Since the loan amount cannot exceed taxes otherwise due, the maximum loan may be less for a low-income family with little taxes than for one with higher taxes. Total deferral cannot exceed $10,000 per student. Repayment must be made within 10 years of completion of education or within 20 years from the beginning of deferment, whichever is earlier.

For upper middle and upper income families, a loan is generally considered a more equitable means of providing Federal support than is a grant. This is reflected in the current operation of Federal assistance programs for higher education. Also, in terms of longrun revenue cost, the Federal Government does recoup at least some of its loan dollars while the revenue loss from a grant is permanent.

Nonetheless, the form of loan provided for in the Mikva bill has implications for simplification and resource allocation which are similar to a tuition tax credit, and it has even worse distributional consequences.

In terms of tax simplification, greater recordkeeping would be required of both the taxpayer and the Internal Revenue Service, and, again, the administration of education assistance programs would be moved away from that arm of the Federal Government, the Department of Health, Education, and Welfare, which is most responsible for their coordination.

With a tax loan, incentives for investment in education are not greatly increased for those on the margin of a decision as to whether or not they should attend college. The loan amounts provided in the Mikva bill increase with taxes otherwise due and thus increase with the taxable income of the families involved.

This increase in loan amount with an increase in taxes due has serious distributional consequences. One of the problems with a tuition tax credit was that the credit was not fully available to those with taxes below the credit amount. Even then, however, full availability of the credit started at much lower income levels than does full availability of the loan amount available from the Mikva bill. That is, the maximum loan amount of the Mikva bill is much more concentrated among upper income groups than is the credit amount because even fewer families have taxes otherwise due which is in excess of the maximum loan amount. Since the loan is interest-free, not only the amount of the loan but also the implicit savings due to the deferral increases with income.

In summary, many of the Treasury Department's objections to tuition tax credits apply equally well to tuition tax loans. The adoption of another tax expenditure toward higher education works at cross-purposes to the goal of simplifying and coordinating the existing program structure of assistance. An interest-free tax loan, as opposed to a regular loan, is an inappropriate means of encouraging investments in education and has undesirable distributional consequences.

Mr. **Simon**. Then if I may address a question to both of you: There is one area that neither one of you has touched upon that is a problem area. Roughly 7 percent of American families have young people in college or university, but about 1 percent of American families have more than one young person in college at the same time.

Obviously, there are some real financial problems in some of those families. Do either of you have any reflections on how we might respond to that situation?

Ms. **Berry**. I think the general propositions that we explained to support our opposition to the notion of tax credits would apply whether one is talking about a family with one student in college or more, depending on how many. But I would think that specifically, depending on the amount of the credit, it may be of substantial value to the parent who has more than one child and if it is $250 or $500, depending on their income, it may not be that much value beyond the psychological value of knowing that they have received some credit for their efforts. So it would depend on how many children they had, how much the credit would be, before one could determine what real impact it had on their situation.

Mr. Woodworth of course is more competent to talk about the tax aspects than I am. I would think in general nothing in that kind of financial problem that the family had would be a reason for violating the principle of need, need-based aid programs in general. In balancing off the provision of need-based programs and providing for a family of that kind that had more ability to pay, I would still come out in support of the need-based programs if I had to choose one or the other.

Mr. **Simon**. Mr. Woodworth.

Mr. **Woodworth**. I think that the best way of providing for it is through a needs test, which tests the income of the family vis-a-vis the question of having to put two through college in a year. That still is not reflected adequately or really at all by use of a tax credit, as I see it.

You could also have a somewhat similar effect—perhaps not quite as hard on the family but similar—where the children may not be in college in the same year but they are in college over a period of years, first one child and then another, with the family having trouble building up financial resources in that period.

So that I do not think the problem is limited to the case where a family has two children in school at the same time. The juxtaposition of one to the other that can sometimes present almost the same problem.

Again, in either of those cases, I cannot see that the tax credit is a good way of dealing with the problem. It seems to me that a major test of need relative to the income is appropriate, and perhaps, as Ms. Berry has suggested, a direct loan program, if you are referring to somewhat higher income families, is the best way of dealing with the problem.

Mr. **Simon**. Mr. Conable.

Mr. **Conable**. I just wanted to say, as one who has three in college at the present time, who has a high income and who is not making it at this point, you people are pretty cavalier with the problems of the middle class or even the upper class, in trying to educate children.

I acknowledge that this is an emotional subject with me, for obvious reasons. I also have great concern about the survival of a plural system of universities. The public support for State institutions is virtually destroying the faculties of private institutions at this point and we had better find some way of getting money to the private institutions which is constitutional and which has some meaning to the American people or you are going to see the end of a plural system of universities.

I think you are underestimating the problem. I acknowledge the things that have been said about the form of tax assistance to the middle class. I abandoned the idea that this was primarily for the benefit of the middle class, however, 2 or 3 years ago when I came to the conclusion that the inevitable result of a tuition credit would be higher tuition for universities that are losing out to the State-supported universities.

The form of Government aid to universities is going to have a lot to do with their survival as free institutions, too. The great tendency we have at this point to give aid to universities for students and let them disburse it has meant that we have tended to some degree to decide what universities are going to survive rather than letting the students choose the type of university they want. Tuition credit at least gives some freedom to the great bulk of the students to apply the benefits where they wish, rather than having to receive the benefits from the university that happens to have the money to disburse in the form of grants and loans and otherwise.

Well, I must say there are other issues in this, including commitments made by legislative leaders that tuition tax credit would be considered. If the commitments were unwise, they nonetheless are commitments. It is part of the responsibility of this legislative body to accept the responsibility for honoring commitments made to its members.

So I think the issue is going to be up and it is going to be decided. You are going to have to make your case, not just to two members of the Budget Committee but to the Congress as a whole. The American people are concerned about the survival of a free and plural system of education and, quite frankly, many people have the idea that this approach is one that would maximize the freedom of the mechanism of support. All right. I have made my speech.

Ms. **Berry**. Would you like a response?

Mr. **Conable**. Yes.

Ms. **Berry**. After you.

Mr. **Woodworth**. All right. First of all Mr. Conable, I would like to say that you of course are not the only one to face the problem of putting children through college. I have put three through college.

Mr. **Conable**. I obviously have more resources than most people to deal with this.

Mr. **Woodworth**. Right.

Mr. **Conable**. My heart goes out to somebody making say $18,000 a year with two or three children in college because they have virtually no resources available to them and in many cases their children are the most educable in the country.

Mr. **Woodworth**. I agree with you that at those income levels it would be far better to spend what money you have to help those at the margin of education rather than to provide equal sized amounts for those substantially further up the income line.

You have stressed, and I think rightfully, a problem of private schools versus public schools. I would like to comment on that. I would like to point out, first of all, that the public school support is largely a matter of State and local government effort. Some State and local governments have been dealing with that problem by providing credits and this is quite different from a Federal credit, I believe. They have been providing credits for those students who care to go to private schools rather than a school which the State itself supports. It seems to me that is one way of dealing with the problem to which you have reference.

I would also point out that the tuition tax credit to which you are referring can go to a child attending a public school just as readily as to a private school.

Mr. **Conable**. Obviously.

Mr. **Woodworth**. To the extent of perhaps even $5 billion, any size credit that you allow could easily be offset by the cost of the public school. Therefore you do not deal with the problem to which you have made reference at all, as I see it, in a Federal tuition credit. I think a credit at the State or local government level where you deal with the institution that primarily supports public education, or perhaps some other type of grant program for private schools, is the better way of dealing with the problem. However, I cannot see that giving grants to the State or the private schools jointly represents any solution at all.

Mr. **Conable**. Well, I acknowledge the point that you are making, Dr. Woodworth, and I must say your logic is impeccable.

I must also say that an argument in behalf of simplicity at this point would have a good deal more impression on me if we were not faced with an energy tax proposal which includes 5 new taxes and 10 new tax preferences which I trust was not checked with you before it was issued, in good White House tradition, because I do not believe you would have been a party to the garbaging up of the tax structure to the degree that energy proposal is going to do.

Now you come in here and say this tax credit is a tax preference that is bad, in effect, and it further complicates the tax structure, creates a new preference. What about those 10 preferences in the energy bill?

You know, all things are relative. The issue is where do we set our priorities here? I would like to see the American middle class have some continuing capacity to educate its children and maybe this is the wrong way to do it. I am convinced it is a very serious problem which must be addressed, not with tables showing how privileged education is at this point in relation to the tax expenditures that already exist.

Maybe we ought to consider children greatly benefited by our society because we do not include scholarships and fellowships under taxable income, but that is a pretty modest part of our tax structure in total if you look at the amount of tax preference.

I guess you see I am in an emotional state. One problem is, we worked until 1 o'clock last night. I do not have any clear view of where we are headed in higher education and I am convinced something is going to have to be done in relation to the private universities, further to buttress them from the assaults made on them by the State-supported institutions. Though I acknowledge that the credit does provide relief for public as well as private institutions, it seems to me, nonetheless, that in all probability this would be greater assistance to the private universities than it would to the public universities.

Mr. WOODWORTH. I would like to ask you to reanalyze that just a little bit, if you would, because it seems to me that a credit would leave the absolute cost differences between private and public schools exactly the same and actually increases the relative price of private schools.

Therefore, in my estimation, either the credit leaves the problem that you referred to—and I happen to agree that that is a serious problem—either it leaves the problem the same or it makes it slightly worse relatively.

Mr. CONABLE. I didn't mean to cut off Ms. Berry.

Ms. BERRY. I did want to respond by saying that I am as concerned about the private institutions and their viability as you are. The person you referred to who might be having an income of $18,000 would have the educational needs of their children subsidized to some extent under the existing programs depending on what their ability to pay was.

In any case, they would be able to benefit from the guaranteed student loan program if it is as Mr. Woodworth called it, a temporary liquidity problem that they have because of the burdens of education.

I think that the tax credit, because it does not really decrease the cost of a private institution relative to a public one, is not the approach to take if one is talking about solving the problems of private institutions. That is something that we will look into and we are very much concerned about approaches to try to solve those problems. But I don't think it can be done with a tax credit.

Mr. SIMON. I didn't realize we had three expert witnesses here today and not two. I am pleased with the input.

One possibility that has been suggested as a modification is to take the top limits off the student loan program completely. I am curious as to your reaction. These are the limits on family income. In fact now, somewhere in excess of 90 percent of the families are eligible, but there are people, and my colleague is a good example, who would not be eligible for a student loan program unless there are three students in his family. Obviously, there is a need.

Mr. CONABLE. I don't think I should be made a case in point. I make either $44,600 or $57,500, whichever. You may take your choice at this point.

Mr. SIMON. But in either case, you are above the $25,000.

Ms. BERRY. There are these improvements that could be made. One of them is removing the top on it and also stretching out the length of time in which one could repay or making it contingent upon income over time. So there are adjustments that could possibly be made that could meet the need the Congressman described without this kind of tax credit.

Mr. SIMON. Mr. Woodworth.

Mr. WOODWORTH. That is, of course, not really in my field. But I think there is considerable merit in raising the limit. I am not sure whether you want to take it off entirely. Raising it, particularly where the individual has more than one child in college, may have merit because I do think that supporting two or three in college is much more of a problem than supporting one in school at a time.

Mr. Simon. The question that my colleague from New York raised about pluralism is a very real problem. I happen to be on the Higher Education Subcommittee. When you look at the endowments for many colleges and universities and what our attendance pattern is likely to be, they present some extremely serious problems, some of them do.

It has been suggested, in fact there were some informal discussions with some of us on that committee, that we inaugurate something like the GI bill following World War II, only not just for veterans but across the board somewhat as a substitute for BOG which would help everyone and which after World War II turned out to be a tremendous boost in the Nation's economy in addition to helping a great many people which would pay tuition plus a certain amount per month for living costs.

I am curious. Obviously you don't have details and we have a few very rough cost estimates, et cetera. I am curious as to what your reaction might be.

Ms. Berry. Who would be the recipients?

Mr. Simon. The students. The students would receive let's say $75 a month living costs and then the school would receive so much as an application toward tuition, or in the case of some schools where they don't charge tuition, as in effect a gift to that college.

Ms. Berry. This would be without regard to ability to pay or need or any of the present criteria across the board.

Mr. Simon. That is correct. That is the way it worked following World War II.

Ms. Berry. It probably would be easier to administer than current programs. There must be some administrative costs associated with current programs so I think it would largely depend on the overall cost of such a program——

Mr. Conable. It would be staggering.

Ms. Berry [continuing]. Compared to other priorities and whether one could fund that. It would be simpler certainly and would get at the problem with the private institutions directly. I would have to see how much that would cost and compare that with some other things.

Mr. Woodworth. I am not sure it would get at the problem with the private schools. Are you going to pay all of the tuition under this proposal?

Mr. Simon. That is what was done after World War II. That could not be done today. Today, for example, Bowdoin College now has a tuition, not counting room and board, of $3,800 a year. Some are even higher. So you could not today pay the total cost, but you could pay a portion of the tuition costs.

Ms. Berry. Depending on whether you pay more of the tuition costs at a private school with a higher tuition as opposed to a public one with a lower tuition, you would still not reach the problem of the disparity between being able to attend a private school.

Mr. Simon. I think the assumption is that you would pay a little bit more to the private schools with the higher tuition costs as the State programs do today.

Ms. Berry. Then it would reach that problem, perhaps.

Mr. Woodworth. If there were constitutional issues involved in making payments to private schools, I should think if there were a differential on that basis you would have that problem. I am not sure how serious a problem that is. I really have not evaluated that.

Mr. Simon. I think the constitutional problems can be resolved. I am not sure the fiscal problems can be resolved.

If I may just toss a question to my colleague here, I mentioned the families with more than one not realizing you were in precisely that situation. Is Mr. Woodworth correct that if those three were attending, you know, when one graduated you started off with the next one, that the cumulative effect would be about the same? This does not present special problems?

Mr. Conable. The problem with having three at one time, there is no way you can save that much money out of a salary after taxes. You have to prepare for it for some length of time. That is something I did not do. The result is that I have finally sold my Washington house and invested the equity into tuition.

Now I am willing to make that sacrifice because I think my kids are good kids who should have the opportunity. But I think it is ironic that, despite my high salary, my family situation is not unusual. We are disqualifying many people from educational aid with salaries far lower than mine and they simply are not going to make it.

Of course, everybody has different views. I think we are going to have to go back to the concept of a quality education, eventually, rather than a college education as a right for everyone. I think there is no way in which we are going to be able to limit the portion of the gross national product we put into education otherwise just as there is no other way we are going to be able to limit the amount of money we put into medical care unless we have some rational way of determining what level of care is to be available to everyone.

So I am not sure. Dr. Woodworth is saying something that is basic and that is that perhaps by giving indiscriminately a tax credit here for higher education, we are not addressing the problem in the most rational way for the long-term benefit of the country.

I am reacting emotionally because of my personal involvement at this point. I also am, however, very much concerned about developing some formula which will permit the easier survival of a plural system of education. I don't want to see all our people educated in State institutions which have a tendency to seek the lowest common denominator rather than to put the stress and emphasis on quality and pluralism as many of our best private universities do.

The tax credit is a poor tool and I acknowledge that. But we have not come up with any other answer. Sometimes we use poor tools rather than do nothing. The crisis is here and now and it is going to deepen and become extremely critical in the next few years as we have declining enrollments. The result is we are going to be pushing toward, I am afraid, a mediocre system of higher education, rather than a system which permits people to choose their level of education.

I don't want to see us all educated to the least common denominator in higher education. I think that is one of the things that has virtually destroyed the effectiveness of lower education resulting in people with high school degrees who are still unable to read.

Ms. **Berry**. Mr. Simon, I am reminded by the Congressman's comment about declining enrollments, that due to demographic factors, the problem of a parent having two or more students in college at the same time is one that would be less significant in the future than it is at present. That, of course, doesn't mean that there is not a problem, but I would just point out that that is a demographic factor.

Mr. **Conable**. The families are smaller.

Mr. **Woodworth**. I would like to suggest that the kind of situation that Mr. Conable outlines could be dealt with better, I think, by making more funds available on loan bases. I can't really believe that a $100 or $200 tax credit is going to heal anything but the emotions insofar as taking care of the costs of educating three children at a private institution.

Mr. **Conable**. May I say only, Dr. Woodworth, that the emotional impact of such condition is real as well as the logic of dry statistics.

Mr. **Simon**. We thank both of you for your testimony. We appreciate your contribution here today.

Our next witness is Dr. Henry D. Paley, president of the Commission on Independent Colleges and Universities.

STATEMENT OF DR. HENRY PALEY, PRESIDENT, COMMISSION ON INDEPENDENT COLLEGES AND UNIVERSITIES

Dr. **Paley**. Mr. Simon, Mr. Conable, ladies and gentlemen, my name is Henry D. Paley. I am president of the Commission on Independent Colleges and Universities, an organization chartered by the Regents of the University of the State of New York which represents more than 100 institutions of higher learning in that State.

We appreciate this opportunity to appear before your committee to discuss with you the question of using the Federal income tax as a means of enhancing the quality of our Nation's higher education institutions and better assuring access to them for all Americans who desire and would benefit from that experience.

While we feel strongly that this is an idea whose time has arrived, we want to emphasize at the outset that we do not regard higher education tax credits, tax deductions, tax deferments or any combination of these as a reasonable or practical substitution for the ongoing Federal programs of student aid as complex as they may be. These programs have been most helpful to all institutions of higher education. They deserve improvement, particularly to restore some of the erosion in their value caused by inflation.

Our higher education system is complex. We regard that as a salutary characteristic. There are different kinds of institutions, with widely differing governance and delivery structures, serving different student constituencies across every State of our Union. The very diversity of our system assures its essential academic freedom, its responsiveness to environmental change and its competitive striving for excellence.

Almost by definition, a complex system does not lend itself to simplistic Government policies. For that reason, we submit that the consideration by the Congress of legislation to provide tax relief for family higher education outlays should not be regarded on an either/or basis with existing programs of student aid now funded by the Federal Government.

The burden of my remarks today will focus upon the special virtue of higher education tax relief with respect to the independent sector. Permit me to explain to this committee my use of the word "independent" in alluding to our institutions. We don't like to be called private. We believe that private education in a literal sense is dead.

Ever since grade school civics, I've been convinced it is bad for Government to provide public funds for private purposes. The colleges and universities represented by our commission are not at all private. They are no more restrictive or exclusive in their admissions than the Government-operated universities in New York. On the contrary, the admission acceptance rate of our campuses is today higher than the State-operated colleges of our State university. They are also not proprietary. In fact, most of them are forced to spend more than their incomes, a condition we all agree cannot continue into the indefinite future.

Also, and this is most important in considering our status as supplicants for public support, we are highly accountable to many publics, including specific Government agencies, for the delivery of the public service which our public charters define as our mission. In New York State our Board of Regents has supreme and ultimate authority over every credit-bearing program and degree-granting right. It certifies, polices quality and standards, and it decertifies. The only recent challenge to that authority has come from the State university, not the independent sector. That court suit is now in appeals.

In New York and elsewhere in the United States, all of higher education depends upon three basic sources for its revenues. They are: Voluntary gifts—including endowment— student tuitions, and tax-levy support. Although an increasing proportion of voluntary gifts is going to Government universities, the bulk of that flow of funds is still in the independent sector. But voluntary giving has not kept pace with inflation and in the past 2 years the dollar amount has actually declined.

The other two flows of higher education support, tuitions and tax-levy funds, are appropriately skewed. We say appropriately because by virtue of being independent we don't expect to match what government universities receive per student.

Independent institutions are highly dependent upon tuition income and Government-operated campuses are highly dependent upon tax-levy sources. In New York State, the independents receive about 8 percent of their resources via the tax-levy route while the Government universities get about 80 percent of their revenues that way.

Needless to say, this is reflected in a very disproportionate cost to taxpayers for providing higher education opportunities in New York. Each student enrolled at State University costs the taxpayers of New York over $4,000 a year. For each student at the City University of New York, the cost in tax-levy funds is almost $3,000 a year. Yet in the independent sector, just as accountable to the

Board of Regents for the quality of its programs, it costs the taxpayers only about $600 a year.

The policy of our State, as affirmed by the Board of Regents, is to provide access to quality higher education opportunities, assuring that students are not denied such opportunities because of such invidious factors as race, religion, age, sex, or economic circumstance. We want a system, so the regents declare, in which student choice of institution is maximized, so that each decides upon the campus most appropriate to his or her educational needs.

It is the last barrier to choice, family economic circumstance, which has been the most resistant to present public policies.

Too often students select their collegiate options based upon what their families can afford rather than what they know would best meet their academic and career needs. I might add, as a public policy consideration, that—notwithstanding the very fine oversight of academic quality by our regents—an even more compelling accountability mechanism for institutions in maintaining high educational standards is competition for the best motivated in which free student choice is maximized.

As you are aware, admission to our Government-sponsored universities does not take into account ability to pay. In independent higher education, however, because it is so tuition intensive for its survival, ability to pay becomes a terribly important and terribly detracting criterion.

How do we repair that condition without making our institutions mirror images of the Government sector? How do we maintain the diversity and pluralism assured by independent governance while using public resources sensitively to achieve worthy public higher education objectives?

For low-income students, the Federal assistance programs should be bolstered to recover inflationary losses. For middle-income students, however, existing aid programs are of little or marginal value. We believe Federal tax relief provides a very practical means of stabilizing enrollments among the sectors while enhancing student choice for middle-income students whose institutional choices are becoming increasingly limited.

We believe any form this concept takes should be carefully constructed to address the tuition gap. There is no need to pour public funds redundantly when there is already an ample supply. When this notion was first seriously advanced 20 years ago in the Congress, there were those who said such an emphasis would only encourage the independent schools to impose higher tuitions. I call your attention to the presently high level and the enormous escalations in our tuitions which are now advancing at a steeper rate than ever before, better than 7 percent a year in New York. Not one dime of Federal tax relief has gone to families paying these substantial tuition charges. The average right now in New York is $3,000 and it will go well above $3,200 next year.

As I said earlier, our institutions are not proprietary. A tuition increase is the very last bitter option for the boards of trustees and chief executives of our campuses. It comes long after their budgets have cut away the fat, at a time when their staff and faculty salaries are far below those of comparable Government universities. In most cases, a tuition increase is a bare survival measure.

A tax relief formula can be developed which would set a ceiling on allowances up to a specific tuition level. It ought also set a floor of at least $1,000 to conserve public funds for those institutions now getting the least direct tax-levy subsidy, and those students most discriminated against in current Federal and State aid programs.

I might point out that the student populations in our universities—contrary to the myth of only upper income students attending independent institutions—our income mix is essentially the same as the State university institutions in New York and the State education department data bear that out.

While substantial income would not be received by the Federal Treasury if a meaningful program was initiated, there would be large countervailing savings for the States as enrollments are held at low tax-levy supported independent institutions.

In New York, for example, because his family received a few hundred dollars of Federal tax benefit, each student who voluntarily enrolled in the independent sector rather than going to a Government university would save our State from $2,400 to $3,400 a year. That is a large State revenue savings for a relatively modest Federal stimulus.

We see the coming years as offering an enormous opportunity for making our higher education system more fiscally efficient as well as more academically effective. In the halcyon years of the 1960's, all of higher education grew in enrollment. But the growth was terribly lopsided and fiscally inefficient. The least costly—in terms of tax-levy expenditures—grew the least. The most costly mushroomed.

In the coming years, enrollment decline is virtually certain. Let us not repeat the error of the 1960's. Let us assure that the shrinkage is balanced, that the disproportionate burden does not again fall upon the independent sector which costs our State taxpayers so much less. Federal tax relief is an opportunity to achieve this. We hope this Congress will move courageously in that direction.

[The prepared statement of Dr. Paley follows:]

PREPARED STATEMENT OF DR. HENRY D. PALEY, PRESIDENT, COMMISSION ON INDEPENDENT COLLEGES AND UNIVERSITIES

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Also, and this is most important in considering our status as supplicants for public support, we are highly accountable to many publics, including specific Government agencies, for the delivery of the public service which our public charters define as our mission. In New York State our Board of Regents has supreme and ultimate authority over every credit-bearing program and degree-granting right. It certifies, polices quality and standards, and it decertifies. The only recent challenge to that authority has come from the State university, not the independent sector.

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The other two flows of higher education support, tuitions and tax-levy funds, are appropriately skewed. Independent institutions are highly dependent upon tuition income and Government-operated campuses are highly dependent upon tax-levy sources. In New York State, the independents receive about 8 percent of their resources via the tax-levy route while the Government universities get about 80 percent of their revenues that way.

Needless to say, this is reflected in a very disproportionate cost to taxpayers for providing higher education opportunities in New York. Each student enrolled at State University costs the taxpayers of New York over $4,000 a year. For each student at the City University of New York the cost in tax-levy funds is almost $3,000 a year. Yet in the independent sector, it costs the taxpayers only about $600 a year.

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It is the last barrier to choice, family economic circumstance, which has been the most resistant to present public policies.

Too often students select their collegiate options based upon what their families can afford rather than what they know would best meet their academic and career needs. I might add, as a public policy consideration, that—notwithstanding, the very fine oversight of academic quality by our Regents—an even more compelling accountability mechanism for institutions in maintaining high educational standards is competition for the best motivated in which free student choice is maximized.

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How do we repair that condition without making our institutions mirror images of the Government sector? How do we maintain the diversity assured by independent governance while using public resources sensitively to achieve worthy public higher education objectives?

For low-income students, the Federal assistance programs should be bolstered to recover inflationary losses. For middle-income students, however, existing aid programs are of little value. We believe Federal tax relief provides a very practical means of stabilizing enrollments among the sectors while enhancing student choice for middle income students whose institutional choices are becoming increasingly limited.

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As I said earlier, our institutions are not proprietary. A tuition increase is the very last bitter option for the boards of trustees and chief executives of our campuses. It comes long after their budgets have cut away the fat, at a time when their staff and faculty salaries are far below those of comparable Government universities. In most cases, a tuition increase is a stark survival measure.

A tax relief formula can be developed which would set a ceiling on allowances up to a specific tuition level. It ought also set a floor of at least $1,000 to conserve public funds for those institutions now getting the least direct tax-levy subsidy, and those students most discriminated against in current Federal and State aid programs.

While substantial income would not be received by the Federal Treasury if a meaningful program was initiated, there would be large countervailing savings for the States as enrollments are held at low tax-levy supported independent institutions. In New York, for example, because his family received a few hundred dollars of Federal tax benefit, each student who voluntarily enrolled in the independent sector rather than going to a Government university would save our State from $2,400 to $3,400 a year. That is a large State revenue savings for a relatively modest Federal stimulus.

We see the coming years as offering an enormous opportunity for making our higher education system more fiscally efficient as well as more academically effective. In the halcyon years of the 1960's all of higher education grew in enrollment. But the growth was terribly lopsided and fiscally inefficient. The least costly (in terms of tax-levy expenditures) grew the least.

In the coming years, enrollment decline is virtually certain. Let us not repeat the error of the 1960's. Let us assure that the shrinkage is balanced, that the disproportionate burden does not again fall upon the independent sector which costs our State taxpayers so much less. Federal tax relief is an opportunity to achieve this. We hope this Congress will move courageously in that direction.

Mr. SIMON. Thank you.

First of all, I want to apologize that there are not more members of our task force here. I don't know if you were here when I mentioned that we were in session until almost 1 o'clock last night and it is a skewed schedule this morning as a result.

You were here, Dr. Paley, when the two previous witnesses testified, I believe?

Dr. PALEY. I heard part of their testimony.

Mr. SIMON. They both testified, one from HEW and one from the Treasury Department, both testified against the tax credit concept. From the testimony that you heard, I was curious if you wish to add anything beyond your formal statement here?

Dr. PALEY. Well, I think the concentration upon Federal fiscal impact in terms of delivering public policy objectives is somewhat shortsighted. I tried to address that in my testimony.

I think the stimulus will be largely felt in the States if we can obtain some sort of tax relief. The form it takes I leave to the expertise of the Congress and the administration.

The point that was made earlier by the representative of the Treasury Department that there would be no relief for the independent sector because it would be spread over into the Government university I think could be easily addressed with very simple amendments to some of the proposed legislation by just setting a minimum tuition level at which point the tax relief becomes operative; $1,000 seems a reasonable one.

The reason is very obvious. The Government universities are now heavily subsidized at the State level. What we are trying to do is preserve pluralism in terms of quality and in terms of academic freedom, et cetera. This is a noble public policy objective.

If you are worried about institutions cashing in on this and automatically raising tuitions in order to up the amount of tax relief that the families of their students receive, that protection can easily be obtained, too, with a very simple amendment putting a ceiling of let's say what the average tuition now is in the country.

This is not a hard cat to skin. The policy direction is a sound one. It should not substitute for the very necessary programs which are meeting the basic needs of low income students, but it certainly should add on. It is not an open ended proposition because of the demographics.

Mr. **Simon**. Another way of handling the difficulty that Mr. Woodworth mentioned would be a percentage of the tuition which would then obviously provide greater assistance to the independent colleges.

One of the aspects that does concern me as I look at the statistics, and we have looked at only a few bills out of the 50 in terms of their cost, but their costs vary from about $2 billion to about $9 billion.

Now, the total student assistance now spent at the Federal Government level is $2.9 billion. Is this an efficient way of assisting education? I think that is one of the questions.

In other words, if we want to spend, say, another $2 billion in education, if someone were to say to you, "Dr. Paley, you can spend $2 billion more for higher education in the United States," is this the direction you would go?

Dr. **Paley**. It seems to me that if you want a balanced system of higher education, a substantial portion of that additional $2 billion should go in this direction, but not all of it. There may be others. We don't claim omniscience in terms of knowing all of the programs that could be most effective in delivering what we want. There are obvious needs, very urgent needs, in the area of graduate research that may have to be addressed in a different way.

There have been very interesting proposals coming forward to stimulate enrollment of the most capable students in our graduate programs, some sort of Federal scholarship award program on a much larger basis than we have had heretofore to generate that type of talent moving to the graduate programs. That is one of the priorities.

But I certainly would put this very close to the top in terms of incremental spending for higher education in this country at this time, also because of the fact that it will stimulate savings back in the States.

Mr. **Simon**. One sentence in your statement intrigued me. I would like you to expand on it. It does not directly affect the tuition thing, but indirectly it does.

"On the contrary, the admission acceptance rate of our campuses," meaning the independent campuses, "is today higher than the State-operated colleges of our State universities."

Dr. **Paley**. Yes. Higher education like other fields of endeavor sometimes gets mixed up with some of its nomenclature. In our State there is a great deal of attention paid to various phrases used over recent years describing what was in effect in the government sector and in the independent sector.

We addressed some of the realities behind the rhetoric and found the statistics compiled by our State education department showed that the number of students who applied, State resident students who applied and were admitted to independent sector institutions, was somewhat higher than the comparable 4-year institutions, all of the State operated, 4-year institutions in New York State. We have diversity within both sectors in our State. We have some institutions which are highly selective in their admission standards, and we have some institutions in both sectors which are open-access institutions. Open access means nothing if you have not got the resources to pay the tuition in those institutions that charge tuition. Some institutions very flatly say if you have a high school diploma or equivalency award you can walk in and enroll in both sectors. Other institutions are very highly selective. Because of the State budget crunch, we have very few options open to us in New York. I don't think we are too atypical. If you are going to have fewer dollars to spend in higher education, you face certain alternatives.

You cannot deny the resources to the independent sector, which is a fairly low amount per student, and at the same time provide them to the Government-sponsored institutions which maintain essentially the same admissions policies. Obviously, if we are to believe, and there is no reason to doubt, the predictions of the leaders of Government institutions, if you pack students in there without accompanying those students with at least the same full-time equivalent support, you are going to lower the quality of those institutions.

Our contention, and there is obviously a line of self-serving logic in this, is that for the few dollars you have, spread it out so that you can preserve the standards in your Government institutions, the same support level at least per student by providing additional access in the independent institutions at a much lower cost to the taxpayer.

To some extent we have persuaded some of our policymakers of that in New York. We have made a little progress, not much. This kind of Federal action, it seems to me, would stimulate that type of encouragement again back at the State level.

Our own Governor, when he was down here among you gentlemen as a member of Ways and Means Committee, was very interested in tax credits. He introduced some legislation. I have not seen it in his program since he has become our Governor. But perhaps he, too, might be encouraged by this.

Mr. **Simon**. If I can get back to the general thrust of my earlier question, nationally something between 20 and 25 percent of our students are in the independent colleges. You may know the precise figure.

Dr. **Paley**. I think it is a little lower.

Mr. **Simon**. So that one of the fundamental thrusts that you are suggesting is that the tax credit can be of assistance to the independent colleges?

Dr. **Paley**. Yes, if it is structured along the lines of either the percentage route that has been suggested or setting a minimum.

Mr. **Simon**. I guess one of the fundamental questions is: If less than 20 percent are enrolled in the independent colleges, if that is the aim, and obviously that is not the primary aim, but if one of the aims is this, an efficient way of providing assistance, assuming even if you have a percentage system or a program like yours that let's say 70 percent of the assistance indirectly will go to those whose children are attending public universities or State-supported universities?

Dr. **Paley**. That is why I suggested the floor. It seems to me that I would lower the priority for tax credit if this went to add on additional Government subsidy to institutions which are now receiving substantial Government subsidy. It would seem to me that if you can narrow the gap, if you can expand choice, you would improve the status of independent higher education in this country.

It has changed very radically in the last 15 years. In our own State, for example, we had two-thirds of the enrollment 15 years ago. We now have one-third. It has been a direct consequence of the imbalance in support. No one has taken into account the very real pressures of inflation which are going to drive up tuitions and drain endowments inevitably. This is one way of moving against that current and perhaps at least stabilizing enrollments and not cause further erosion in independent sector enrollment. Cover part of it—the tuition gap—which would be a more efficient method if we talk about tax-levy subsidies on the whole, including Federal and State. That would be far more efficient.

Mr. **Simon**. We appreciate your testimony. If I may just add, and I have no feel at this point for what the House may do in this matter of tax credits, but I am also wearing another hat as a member of the Higher Education Subcommittee.

If there are any ideas that you have on how we can move on this very real problem that we are talking about, I would personally welcome them and I think the other members of our subcommittee would, too. Thank you very much.

Dr. **Paley**. Thank you, sir.

Mr. **Simon**. The hearing stands adjourned.

We had scheduled another hearing for tomorrow at 10 a.m. Because of the defeat of the budget resolution last night, the Full Budget Committee will meet at 10 a.m. tomorrow and the meeting of our task force scheduled for tomorrow at 10 a.m. will be postponed to another date.

[Whereupon, at 11 a.m. the task force was adjourned until Thursday, May 12, 1977, at 10 a.m.]

COLLEGE TUITION TAX CREDITS

THURSDAY, MAY 12, 1977

HOUSE OF REPRESENTATIVES,
TASK FORCE ON TAX EXPENDITURES,
GOVERNMENT ORGANIZATION AND REGULATION,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The task force met, pursuant to notice, at 9:35 a.m., in room 210, Cannon House Office Building, Hon. Paul Simon, chairman of the task force, presiding.

Present: Representatives Simon, Lehman, and Mineta.

Mr. SIMON. The task force will come to order.

This morning's hearings constitute the second day of the hearings on the college tuition tax credits. The popularity of this idea is reflected by the fact that there are now more than 50 proposals in the House and the Senate on this subject. I know on the first day of hearings it was noted that legislation passed the Senate in 1967, 1969, 1971, and twice in 1976. The House has never passed any legislation in this area.

I might note particularly for the witnesses who are here that on the first day of hearings the administration spokesmen from HEW and Treasury were opposed to such legislation.

Today's witnesses will be Senators Roth and Schweiker, who will be a little late because of a meeting at the White House, and Congressmen Mikva, Corcoran, Crane, and Coughlin.

The legislative director of the National Student Lobby and the national director of the Coalition of Independent College and University Students will also testify.

We can begin, Congressman Mikva, with your statement.

STATEMENT OF HON. ABNER M. MIKVA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. MIKVA. I would prefer to have my statement entered in the record.

Mr. SIMON. It will be included in the record.

Mr. MIKVA. I want to commend the task force for holding these hearings. I have been in the uncomfortable position, as a member of the Ways and Means Committee, of resisting this inexorable pressure for doing something about the high cost of college education. Unfortunately, the simplistic approach to the problem is, give them a tax credit of $250 a year and hope the problem will go away.

To use a little personal example, my eldest daughter is about to enter law school next year. The tuition at the University of Chicago is $5,175 for the year. A $250 tax credit—while I wouldn't throw it away—is not going to solve the problem; nor will it solve the problem of all the other people who are creating this pressure to do something.

Second, as the committee with the responsibility for our fiscal affairs is aware, the cost of the simplistic answer is very, very high and remains high. You are talking about a permanent reduction of revenues of over $2 billion a year at the $200 or $250 level. It was for those reasons that I decided to tinker with an improvisation of this credit which would do two things: first, provide meaningful help to the taxpayer during these critical years and, second, reduce the long-range revenue impact as far as we can.

The pressure for relief is not going to go away. The high cost of college education makes it almost impossible for anybody to pay for this out of after-tax dollars, no matter how they have saved and provided and everything else. It should not come as a surprise to the committee to know the Federal Government has consistently taken a role in trying to help meet those needs. The GI bill, the land grant colleges, and even our existing programs, the basic opportunity grant programs and loan programs, all contain an awareness of our concern and a commitment to that concern.

Unfortunately, they have left some gaps and that is what these various proposals are attempting to fill. My proposal simply is to provide not a tax credit, but a tax deferral and to provide a meaningful amount of deferral of up to $1,500 a year, which is to be paid back. What it takes into account is that there are 4 or 5 or 6 or 7 critical years when the taxpayer is sending one or more children through college when the load is the heaviest. During that period we can, hopefully, lighten his tax role somewhat by the amount of $1,500 and then, when that load is removed, require that he start to pay it back on a gradual basis.

What it boils down to really is an interest-free—or, one variation I have, a modest interest rate loan from the Government secured by your taxes. The difference in cost, in revenue impact for example, is very, very striking. The Roth proposal which I have used as a standard for the various tax credit bills—there are variations, but they are about the same—will cost approximately $2 billion when fully implemented and go up from there. In 1982 it is $2.3 billion and it goes up even further. This is a permanent loss to the Treasury of $2.3 billion of revenue, and means this committee would have to find an alternative, as the Ways and Means Committee would, to replace that revenue in one form or another.

Under my proposal the initial startup costs are even higher because until repayment starts, obviously more money—up to $1,500—is being paid out. In initial year, 1979 for example, the figure is approximately $8 billion, but then it starts to decrease so that by 1986 it is a $1.3 billion cost and continues to decrease so by 1990 it is a break-even program. At that point, you are getting back as much as you are losing.

If you want to put a 3 percent interest charge on the taxpayer for the time that he or she has deferred their taxes it actually amounts to a revenue gain by 1990 of about $½ billion in interest charges.

There are all kinds of variations. Each has a different revenue impact. I have had the Joint Committee on Taxation prepare a table which with the leave of the chairman and the committee I would like to introduce in the record. It shows three variations of the tax deferral and what the revenue impact would be in each of the fiscal years. They range all the way from a high of $8.1 billion lost in 1980 to a loss of about $1 billion in 1990 and from there to one where in a 5-year deferral with a 3-percent interest charge a revenue gain occurs about 1987.

Could I have this in the record?

Mr. **Simon**. It will be entered in the record.

[The table referred to by Congressman Mikva follows:]

ESTIMATED EFFECT ON BUDGET RECEIPTS OF H.R. 3676

[In billions of dollars]

Fiscal year	H.R. 3676 with 10-yr payback and no interest charge to the taxpayer	H.R. 3676 with 5-yr payback and no interest charge to the taxpayer	H.R. 3676 with 5-yr payback and 3 percent interest charge to the taxpayer
1978	−1.2	−1.2	−1.2
1979	−7.9	−7.9	−7.9
1980	−8.1	−7.8	−7.7
1981	−8.0	−7.1	−6.9
1982	−7.7	−6.1	−5.7
1983	−7.2	−4.7	−4.2
1984	−6.5	−3.2	−2.5
1985	−5.7	−2.0	−1.3
1986	−4.9	−1.3	−.5
1987	−4.0	−.8	+.1
1988	−3.0	−.6	+.3
1989	−2.0	−.4	+.5
1990	−1.3	−.3	+.6

Note.—These estimates do not include interest costs to the Government.

The decline in the cost with the passage of time is due to the fact that repayment of early deferrals is offsetting later deferrals.

Of course, as a corollary to this, in the event of termination of the program, the deferrals would be completely offset over time by the repayments even in the absence of an interest charge to the taxpayer.

Mr. **Mikva**. I urge this on the task force, Mr. Chairman. If we were starting all over again, we might agree that the tax code is the poorest place to carry out social policy. I still think it is; that there are other ways of doing this better. Unfortunately, we never start with a clean slate in the legislative arena and I have a nagging suspicion that this pressure for doing something through the tax code about the high cost of higher education is not going to go away. If we are going to do something, I would rather do something that is both meaningful and fiscally sound rather than go at this in the manner of throwing a bone to the problem and incurring a loss in revenue of $2 or $2.5 billion a year.

Mr. Simon. Among the alternatives have you looked at this one problem that apparently affects about 5 percent of those who have children, students in college, dependents in college, and that is the person—if I remember correctly you are going to be in that situation, if you are not now—who have two or more in at the same time.

What is this deferment you are talking about if applied only to those who have two or more in at the same time and only in those years?

Mr. Mikva. That would reduce the cost even further. Again it depends on how long a range we want to take. I have one proposal here which calls for a 5-year payback with a 3-percent interest charge to the taxpayer for the period that his taxes have been deferred. It is a $1,500 deferral each year for one or more children in college and the taxpayer doesn't start to pay it back until 5 years after the child is out of college. The cost of that over a 15-year period is a wash. You pick up revenue over the next 15 years. Now, any variations that reduce the amount of the credit or apply it only to the one person who has two or more in college at the same time, or would reduce the period of payback, or increase the interest rate, all of those make that revenue impact even less hurtful than the one we are talking about.

I think the real question we have to decide is, how much of our revenues can we apply to this and over how long a period of time do we want to view this problem.

Clearly the hardest hit of all out of those who have two or more children in college are those in the middle-income range. I don't know of many such people who are solvent.

Mr. Simon. One of our colleagues, Representative Conable now has three children in college, so we are not dealing just with a remote problem on the task force. Mr. Mineta.

Mr. Mineta. I would like to thank you for your testimony. How do you police this with regard to full-time and part-time students? Is there any factor there that enters into this portion of it?

Mr. Mikva. We have talked about applying it to all individuals who are in full-time or part-time education, whether it was higher education or a vocational school because again the taxpayer is merely borrowing against his own taxes. Especially if you apply an interest rate to this, a modest interest rate, you can afford to be rather generous about the definition. As far as the administration of the program, itself is concerned, it is through the Internal Revenue Service. They are not happy about it, but I happen to think one of the reasons our existing programs have created these gaps is because we have set up a separate bureaucracy to test eligibility in the first place, and to police the cheating in the second place and to police the paybacks and so on. In the basic educational grant program, for instance, some 51 percent of those eligible never even applied because the bureaucracy is so heavy and so complicated.

I like the Internal Revenue Service as the policing service here. They do an excellent job with a modest amount of expenditure and a modest amount of bureaucracy. I have been audited enough that I am not about to lead cheers for them, but, on the other hand, overall they do a pretty good job. As reluctant as they may be to take on this responsibility, they can do it better than any other agency we could create. You can afford to have the definitions broadened.

Mr. **Mineta**. It is somewhat regressive in the sense that if you have a person who goes to a community college, that may cost $280 a year versus a person who goes to law school at the University of Chicago having to pay out $5,000. Yet the credit is, or the tax deferral is up to a maximum of $1,500. So, for the person going to the community college, they get to defer their full $180 but for the person who is going to the University of Chicago Law School, he only gets to defer $1,500, of the $5,000 expense.

Mr. **Mikva**. Which makes it progressive rather than regressive.

The specific proposal I had was 75 percent of the first $1,000, 50 percent of the next $1,000 and 25 percent of the next $1,000 up to a maximum of $1,500. In fact it was progressive.

Mr. **Mineta**. I am wondering whether this addresses the basic problem. That is, if you have tax deferrals, you have to have an income from which to defer and it seems to me most of us are really in need of some financial resources to get them through school and not so much the tax deferral.

Mr. **Mikva**. Except, Congressman, that when you look at the spread-sheet of who is impacted by the present problem, we really have taken care of most of the people whose families have low or no income. I do not mean taking care of all of them—they are all in school, but there are programs that are designed to meet their needs, and do meet them reasonably well between the loan and grant programs. There are programs to meet the needs of the lower income groups. If you are very affluent and have the good fortune to be born into a wealthy family, your needs are taken care of. If you fall into the middle class, you are paying taxes and there are no substantial reserve funds to pick up these unusual expenses every year for 5, 6, or 7 years.

That is why there is so much pressure for a tax credit, because that is the group for whom none of the existing programs apply. I am sure you have had the problem, or you will have. My daughter made the mistake of asking for a financial grant, even though she is 24 and has been on her own for several years. She was politely told her father makes too much money to be on a grant program. She is barely eligible for the high-interest rate program. She is not at all eligible for any subsidized programs. I think it is that kind of taxpayer to whom these programs are aimed toward affording some relief.

Mr. **Mineta**. Thank you very much.

Mr. **Simon**. I assume then if whoever defers the payment dies there is a lien against the estate?

Mr. **Mikva**. There is a lien against the estate but it is a tax item. It isn't like borrowing the money. It is against future taxes and does remain a lien. If there are assets there and a tax is due it could be collected, but you wouldn't take away the home from the widow to pay the remainder.

Mr. **Simon**. There would be in effect probably some loss.

Mr. **MIKVA**. I asked the Joint Committee about that. Obviously there will be some leakage here, but they didn't consider it serious enough and I don't consider it serious enough to apply a dollar figure to it. There will be some.

Mr. **SIMON**. We thank you very much for your testimony.

[The prepared statement of Congressman Mikva follows:]

PREPARED STATEMENT OF HON. ABNER J. MIKVA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, thank you for inviting me to appear before this task force of the House Committee on the Budget. The committee's analysis of appropriate funding levels and revenue policy necessary to implement effective support for American higher education is a very welcome effort.

For most Americans, the goal of higher education or advanced vocational training is among the most highly prized. Traditionally, education has been the key to both professional growth and personal satisfaction. For America the country, higher education and its accessibility have been the key to our national growth and progress. We have avoided the rigid class structure of many other countries because the availability of a college education has provided maximum upward mobility. Unfortunately, the attainment of this goal for many families has become more and more difficult to achieve in recent years. And the country is beginning to reflect this difficulty.

An effective higher education policy must include consideration of equal educational opportunities, financial stability for the educational institutions, and financial relief for students and their families. Each of these factors is related to the level of Federal support. For example, in fiscal year 1977, the Federal effort on behalf of higher education represents $14.3 billion, or about 30 percent of the total cost of higher education. Of this amount, $7.9 billion or over 15 percent of total costs is provided through Federal student assistance, grants, low-interest loans, and subsidized jobs.

Present programs, however, have not kept pace with rising educational costs. This has made a higher education more unlikely for growing numbers of people. In the past 5 years, the number of full-time students from families earning between $6,000 and $9,000 annually has decreased by 14 percent. The number of full-time students from families earning more than $9,000 annually has decreased by 5 percent. For the people in these income ranges, higher education represents hope for the future. It is imperative that the Federal Government make a commitment to see that the hope is realized.

Two of the major obstacles to higher education have been the complexity of grant applications and the insufficient amount of money available for loans. The former is indicated by the low 51 percent participation rate of eligible students in the basic educational opportunity grant (BEOG) program.

Also, our two major student loan programs, the national direct student loan (NDSL) program and the guaranteed student loan program (GSLP) have been characterized by high rates of default, and sometimes quixotic determinations of eligibility. These random determinations, however, are of great importance to the borrowers for the NDSL carries a 3-percent interest rate and the GSLP carries a 7-percent rate.

Tax credits are an attractive solution to shortcomings of existing programs because application procedures are eliminated, and defaults minimized. But, the type and size of the credit raise important policy considerations about both the level of assistance to be provided students, and the cost to the Federal Treasury.

Mr. Chairman, I suggest that the straight credit satisfies neither of these considerations. As tuition, book fees, laboratory fees, and related costs increase, a $250 or even a $500 credit fails to provide an adequate measure of relief. The cost to the Federal Treasury, however, remains high—over $2.3 billion per year.

Earlier this year, I proposed an alternative to the straight tax credit which would permit the student or the parents of the student to defer from taxes a percentage of eligible educational expenses, and to repay in full the deferred amount over a 10-year period beginning after completion of the educational program. The repayment provision protects the Federal revenues, and allows for a larger annual deferred credit than can be provided under the straight credit. While initial costs under the tax credit deferment concept are higher than the cost of a $250 to $500 credit, as repayment begins, the annual costs decline until they reach a level approximately $1 billion below the cost of the straight credit when the cycle has first been completed—and will decline even further thereafter.

Moreover, the deferment concept is more flexible. If the cost is deemed to be too high, the period for repayment may be shortened, or a modest interest rate—equal to the 3 percent charge of the current NDSL program—can be imposed. If repayment is required on a 5-year payback schedule, the annual cost drops below that of the straight credit in half the time as the 10-year schedule, and continues at a rate which is approximately $2 billion less costly on an annual basis. If the deferments are accompanied by a 3-percent interest charge, the Treasury will actually receive more than it pays out by the conclusion of the first cycle.

Mr. Chairman, I should also like to mention that tax deferment, like tax credits, is not the panacea for all the ills of higher education. The charitable deduction continues to play an important role in the financial health of institutions. Also, the grant programs for the neediest students who have no tax liability would have to be maintained. I do think, however, that the tax deferment has the potential to relieve students and families of much of the financial burden of higher education, stimulate attendance and increase the revenues of the institutions. All three are beneficial goals for the Nation as well as for the individual students and their families.

Mr. SIMON. Mr. Coughlin, we appreciate your being here. You may proceed.

STATEMENT OF HON. LAWRENCE COUGHLIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. COUGHLIN. I would like to enter my statement in the record and summarize it.

I am pleased to be here to testify in support of legislation that would provide a measure of relief for those people, as my colleague from Illinois very properly points out, who are in that period of their life when they are undergoing the cost of higher education and it is a very critical period of time. Although a tax credit proposal may seem simplistic, it is in fact its benefit because it is a simple thing that can be easily administered and easily done. Although a tax credit might not finance all the cost of higher education, it is at least a help to those families in those critical years which are very important.

In this Congress alone, 139 Representatives and 31 Senators have sponsored bills to create some kind of system of tax credits, tax deductions, or other forms of tuition relief.

The history of the legislation is in fact intriguing because it passed the Senate in four of the past five Congresses, but we have never been permitted to vote on it in the House. It is legislation whose time has come. The time has come not only from the standpoint of obtaining a vote in the House and obtaining this kind of relief but the time has come because these are the critical years as my colleague from Illinois points out.

In our desire to help the poor, we have initiated programs and authorized the kinds of funds that will help needy scholars but it is the middle Americans in these critical years that need help at this point in time, and a program of tax credits, which can be one of a number of programs, can be very helpful.

The cost of college education is rising faster than the cost of most other goods and services. Middle-income students from families earning between $10,000 and $20,000 annually pay a greater net cost to attend college than do either the poor or the wealthy: 41.6 percent for the middle income versus 32.2 percent for the low income, and 29.6 percent for the high income. The percentage of middle-class students is declining at a rapid rate. In 1974, for example, there were 22 percent fewer middle-income students in college than there were in 1969. If you are the parent of a 1 year old today and you plan to send him to a 4-year college, it will cost you $47,330 at a State school in the 1990's and $82,830 for a private education at a private institution.

These are rather staggering figures that I think you and I and others are faced with as we look to the future.

While the formulas for tax credit vary—and I am convinced that a reasonable and fair approach can be reached—for instance, my measure would authorize a maximum yearly tax credit of $325 per student to offset income tax payments for those with $1,500 or more in college expenses. The bill would permit a tax credit of $100 for the first $200 spent on higher education, 25 percent of expenses from $200 to $500 and 5 percent of expenditures from $500 not to exceed $1,500. Those earning $22,500 or more yearly, would be eligible to have a diminishing credit as their income goes higher.

I am not wedded to my particular proposal because there are other good proposals. At least this is a start to try to obtain some relief for this particularly critical period of time in people's lives.

It is important I think that this is really an investment in the future of our country and our people because people with higher education obviously earn more and produce more for the country and I think it is important that we realize that.

We have referred to the fact that this kind of legislation would create a revenue loss and the Treasury trots this bogeyman out each time a proposal like this is made.

Some 4 years ago, when I first introduced legislation like this, I contacted the Treasury Department and was informed the revenue loss would be more than $2 billion annually, but that is not entirely true because these estimates were based on a presumption every family would take advantage of this which probably would not happen.

Then in the March 31, 1977, Congressional Record, Senator Kennedy said he had written the Treasury Department and they estimated the revenue loss at $1.1 billion for the first year for a $250 tax credit and $2 billion for a $500 credit when fully phased in.

Yet the Joint Committee on Taxation estimates, for example, that Senator Roth's bill startup costs would be only $175 million. The estimates vary very broadly and perhaps are not realistic in many phases. Even giving Treasury the benefit of the doubt, the revenue loss would account for only .0045 percent of our entire Federal budget so it is not a really very substantial figure.

The important thing to me is that this legislation would help people; it would enable them to determine the kind of education they want their children to get and it seems to me it is important that this Budget Committee task force take testimony, listen, and provide in their budget allowance so that a provision like this can be enacted.

By changing our laws to benefit people, it seems to me that we are really making an investment in the future that is very important and very significant.

PREPARED STATEMENT OF HON. LAWRENCE COUGHLIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

I am pleased to testify today in support of legislation that would provide a measure of relief for Americans who are finding it more difficult each year to provide higher education for their children because of escalating costs of tuition and other fees.

In this Congress, 139 Representatives and 31 Senators already have sponsored bills to create a system of tax credits, tax deductions or other forms of tuition relief. The history of this legislation is intriguing: it has passed the Senate in four of the past five Congresses while the House never has been permitted to vote on it.

Now, the plethora of newspaper headlines and stories detailing the plight of middle-income Americans as college and university costs soar has underscored the concern of those of us who believe this legislation is a necessity.

In our desire to help the poor, we have initiated programs and authorized funds for needy scholars.

But, somehow we have taken for granted middle-class America and virtually ignored these citizens who are the backbone of our society, the great stable base of our population, the heavy proportion of taxpayers, and the people who have provided the leadership and bodies in time of great national emergencies.

I do not cast my appeal for this legislation on a caste basis. But, I do think that by our failure to recognize the situation of middle Americans, we have inferentially installed a reverse caste system.

Are middle-class American families being priced out of higher education? Yes.

1. The cost of college is rising faster than the rise in the cost of most other goods and services.

2. Middle-income students, from families earning between $10,000 and $20,000 annually, pay a greater net cost to attend college than do either the poor or the wealthy: 41.6 percent for the middle income versus 32.2 percent for the low income and 29.6 for the high income.

3. The percentage of middle-class students is declining at a rapid rate. In 1974, there were 22 percent fewer middle-income students in college than there were in 1969.

I am sure many of you got a taste of further "future shock" when you read the Sunday supplement, "Parade", on projections of college and university costs. In the February 27, 1977, edition, the supplement cited figures compiled by the Oakland Financial Group, Charlottesville, Va., which based its estimates on an annual inflation rate of 6 percent and included tuition, board, room, travel, books, and incidentals.

If you are the parent of a 1 year old and you plan to send him to a 4-year college, it will cost you $47,330 at a State school in the 1990's while it will cost you $82,830 at a private institution. I submit that these figures are terrifying based on a conservative estimate of a yearly 6 percent inflation factor.

In the legislation others and I have proposed, tax credits would be permitted for universities and colleges, and accredited technical, business, vocational, and trade schools.

I think it is important to understand that what we propose is not the expansion of a semielite system restricted to colleges and universities, but a reasonable and flexible system that also will encourage higher education in important trade, technical, and vocational fields.

Not every student of college age wants to attend a structured academic environment nor should he be encouraged if he is not equipped to do so. That is why it is so important that the trade and vocational aspects of this legislation be recognized.

While the formulas for tax credits or deductions vary, I am convinced that a responsible and fair approach can easily be reached. For instance, my measure would authorize a maximum yearly tax credit of $325 per student to offset income tax payments for those with $1,500 or more in expenses.

The bill would permit a tax credit of 100 percent for the first $200 spent on higher education; 25 percent of expenses from $200 to $500, and 5 percent of expenses from $500 but not to exceed $1,500.

Those earning $22,500 or more yearly would be eligible for a gradually diminishing credit as their income goes higher. While that figure is not a princely sum nowadays, I think it comes remarkably close to the $10,000 to $20,000 income bracket which, as I testified earlier, has been so devastatingly affected.

I might point out that my work on tax credits for higher education has been a continuing effort and, each time more facts are revealed, I find more compelling reasons for the legislation.

Back in the 93d Congress, I checked the figures for what college graduates earned in a lifetime. The 1972 figures available then showed college graduates received $243,145 more in lifetime income than high school graduates. They earned $343,111 more than those with 8 years of education or less.

These figures, no doubt, have changed in one direction or another. I note, however, that they do not include the higher earnings of trained technical, vocational, and trade school graduates who would be covered under the provisions of my bill.

The implications are clear: the higher educated earn more money. Those who earn more money pay more taxes. The more taxes that are paid the more revenue Federal, State and local governments obtain. In short, it is a prudent and wise investment. In stating that, I want it understood that my support for tax credits for higher education goes beyond mere dollars and cents. I know opposition has been based basically on the so-called revenue loss to the Government. I will treat this subject a little later.

But, for a Nation which aspires to a richer and fuller life for all of its citizens, to base the concept of higher education on how much or how little goes into the Federal Treasury, is demeaning and unworthy of its people and even more so of its elected representatives.

Leaving aside the increase in tax revenues from higher earnings of the more educated, I believe that legislation which I propose would benefit the country intellectually, socially, and culturally. For the millions that are expended by the Federal Government in encouraging the arts and funding a variety of cultural projects, I am convinced that tax credits for higher education would help accomplish these ends directly.

Rather than funneling tax dollars through the Federal Government and having them come out the other end in a highly diminished state, this legislation would permit the people to use their money directly. And it's about time, we, in the Congress, recognize that this is one of the most effective ways to use earned income.

In setting tax policy in this vital field, I think it should be recognized that we are providing tax credits for use only for a limited period of time—a time when the drain on the family income is the highest.

The tax credit for higher education thus effectively is passed on from family to family as children reach college age when the assistance is needed the most. It is eminently just since, unlike most of our tax shelters or havens, it provides no permanent tax credit for the family or the individual.

I referred earlier to a quaint expression, revenue loss. As we all know, this is the bogeyman trotted out of the vaults by the Treasury Department every time a program or project to which it objects is proposed. On the other hand, there is no such thing as revenue loss when the administration in power, through the Treasury Department, proposes such wonderful things as tax incentives or tax investments.

Of course, tax credits for higher education are accorded the revenue loss treatment although figures I've already cited show how shortsighted that approach is. And what a wondrous number of figures do we receive for revenue loss projected for this legislation.

Some 4 years ago, I contacted the Treasury Department on my bill and was informed that the revenue loss would be more than $3 billion annually. Amazing—the estimates, moreover, were based on the presumption that every single family eligible would be taking advantage of tax credits. An unlikely assumption, we can agree.

Then, in the March 31, 1977, Congressional Record comes a letter from Hon. Edward M. Kennedy, of Massachusetts, to Hon. Joseph A. Califano, Jr., Secretary of Health, Education, and Welfare. The Senator serves up a softball, asking the Secretary to knock down the proposals for tax credits. In his letter, the Senator reveals that the Treasury Department estimates revenue loss at $1.1 billion in the first year for a $250 tax credit and $2 billion for a $500 credit when fully phased in.

As a matter of fact, the startup cost is much lower than the Treasury Department estimates. The Joint Committee on Taxation pegs the first year cost at $175 million. The cost, of course, would climb in following years. Enough of the Treasury Department and its estimates.

I submit that the revenue loss argument is specious at its best and pitiful at its worst. The Federal budget in February was estimated at almost $460 billion. Giving Treasury the benefit of the doubt, a $2 billion revenue loss would account for .0045 percent of the entire Federal budget!

If we are to pay more than lip service to the great middle America for which we often speak and just as infrequently act, I think we should provide a measure of tax justice by making it possible through Government action to educate their children in colleges, universities, and trade, technical, or vocational schools.

I am almost embarrassed to think that, as Federal legislators, we have viewed so narrowly and so devoid of forethought the path of higher education for millions of Americans.

As legislators, we create or encourage policies both by the tax legislation we enact and by the tax subjects we ignore. Whether or not we like it, we are shaping a variety of business, municipal, educational, charitable, cultural, and social policies by action and inaction.

I again refer to the exchange of letters between Senator Kennedy and Secretary Califano, and to the testimony of HEW officials in opposition to tax credits for higher education.

In short, I believe it is time for the elected representatives of the people—the Senators and Representatives—to exercise the policymaking functions which is not just their prerogative but their duty. I contend that Secretary Califano, and his department are, in fact, trying to usurp the authority of the Congress in their opposition to tax credits for higher education.

Nowhere is it stated in the Constitution or in the law that HEW has the authority to write or change tax law. Nor is its amorphous mandate, granted by the legislation adopted by the Congress and signed by the President, so broad as to dictate policy for millions of American citizens too well-off to take advantage of Government largesse designed for the poor, yet not so affluent as the wealthy who need not worry about the escalating costs of higher education.

To the coterie of HEW "experts" and to Secretary Califano specifically, I quote from the January 17, 1977, budget message of the President: "Nearly all tax expenditures are meant either to encourage certain economic activities or to reduce income tax liabilities for taxpayers in special circumstances."

This is the job of the Congress in conjunction with the President. For example, let's take the case of tax-exempt bonds. To use Treasury's favorite little catchall, the revenue loss to the Federal Government is estimated at $6 billion for 1978. As a revenue loss, that—in Treasury terms—is a horrendous figure.

Yet, is there one among us who would challenge the logic and reason and result of that so-called revenue loss? Without this provision for tax-exempt bonds, the chaos that would result for many cities and other municipalities, this tax provision is used by investors throughout the country. The multimillionaire can take advantage of it as well as the small investor.

Thus, the validity of the argument that the rich would benefit, too, from tax credits for higher education amounts to nothing since the wealthy always benefit more than the less affluent. My legislation's gradually diminishing scale of tax credits as incomes rise also invalidates this argument.

The recognition that relief must be made available for middle Americans, and even the more affluent, though not wealthy, can be seen in a new phenomenon. Private colleges are entering the loan field.

In my congressional district, Bryn Mawr College has created a loan program. Basically, these are long-term loans at reasonable interest rates which enable parents to stretch out payments for a number of years.

Other private institutions initiating loan programs include: Cornell University, Ithaca, N.Y.; Yale University, New Haven, Conn.; Amherst College, Amherst, Mass.; Massachusetts Institute of Technology, (MIT), Cambridge, Mass.; and Stanford University, Stanford, Calif.

I suppose it's easy to say that private institutions have a vested interest in continuing in business. Yet, both the private colleges and public institutions have served this Nation remarkable well.

To aid both the aspiring student and the worthy institution is not to be kissed off as vested interests. It, in fact, is a dual purpose which our tax laws should be encouraging.

For, after all, we are talking about jobs in the shortrun at colleges and universities, and higher earnings for people and more taxes in the longrun for governments at all levels. I cannot conceive of a better nor more just application of the tax laws.

I understand that Chairman Al Ullman, of the Ways and Means Committee, has promised to conduct hearings on tax credits when tax reform legislation is considered.

The decision, however, by the Budget Committee task force to take testimony first was a sound one. I know that the task force members will weigh carefully all facts in the issue and will lay to rest some of the myths that have grown up around the tax credit approach.

I think this committee can reassure the Congress that:

(1) We can afford to provide this important relief for our middle-income constituents. It is their taxes that do, in fact, pay for the education of the poor. It would be unfair if we do not assist these families with a small portion of the costs of higher education.

(2) If we provide for middle-income families, we will not be decreasing our commitment to the provisions of equal education opportunity for the poor. None of the sponsors of this legislation would, directly or indirectly, do anything to deprive poor families of the opportunity to educate their children further.

I know that there has been talk of extending need-based aid to middle-income families. This, unfortunately, is not a reasonable method of approaching a real problem since the definition of "need" is dicey when applied to the middle class.

Applying the legal definition of need to middle-income Americans for purposes of education is to complicate a problem that can be relieved by new tax laws. Middle-income citizens are committed to a way of life (by the tax laws, too) that requires that their limited resources be spent on a number of family needs that include, but are not limited to, education.

I believe most Members of the Congress think that all Americans must sacrifice to provide higher educations for their children. The truth is, however, that we are limiting the sacrifices already. The rich, obviously, don't have to worry. The poor are being aided by the rest of the taxpayers. And the middle-income taxpayer is carrying most of the burden.

By changing our tax laws to create benefits to the people and to the Government, we are accomplishing goals which will enrich the country as a whole. Tax credits for higher education serve that purpose and provide a measure of relief during that period of a family's life in which it is most financially hard pressed.

Mr. SIMON. You mention both in your written statement and in your oral remarks a figure that I had not seen before. In 1974 there were 22 percent fewer middle-income students in college than there were in 1969. Is this as a percentage of the overall number of students or is it in absolute numbers? Do you happen to know?

Mr. COUGHLIN. It is a percentage, as I understand it, of the overall number of students. These figures were derived from the Census Bureau, prepared by Dr. Larry L. Leslie in February 1977, "Higher Education: A Decade of Progress," so they are substantial figures.

There is supporting data which I would also like to submit for the record, which I believe the task force has before it.

Mr. SIMON. We will enter it in the record.

[The information referred to follows:]

SUPPORTING DATA—TAX CREDITS

THE COST OF COLLEGE

Table A-3 shows the rise of college costs and the increase in tuition and fees between 1964 and 1977. Charges are indicated in constant 1974-75 dollars.

	Percent increase
Total tuition—Board and room:	
Public institutions	12.3
Nonpublic	16.3
Tuition and fees:	
Public institutions	33.3
Nonpublic	26.6

"Parade" article (attached) shows impact of rising college costs on middle-income families.

NET COST

Table 10 shows the net cost of college going by income level. Middle-income students pay a greater percentage of their costs than do either the low- or high-income students.

Income level:	*Percent of cost paid by student*
Low income	32.2
Middle income	41.6
High income	29.6

Middle-class attrition 1969–74

Decline in rate of enrollment	8.8 percent
Percentage decline	22.4 percent
Decline in number	1,300,000

TABLE A-3.—ESTIMATED AVERAGE CHARGES (1974–75 DOLLARS) PER FULL-TIME UNDERGRADUATE RESIDENT DEGREE-CREDIT STUDENT IN INSTITUTIONS OF HIGHER EDUCATION, BY INSTITUTIONAL TYPE AND CONTROL, 1964–65 TO 1976–77

[Charges are for the academic year and in constant 1974–75 dollars]

	Total tuition, board, and room					Tuition and required fees				
Year and control	All	Annual percent change	University	Other 4 years	2 years	All	Annual percent change	University	Other 4 years	2 year
1964–65:[1]										
Public	$1,575		$1,742	$1,436	$1,057	$403		$494	$371	$164
Nonpublic	3,161		3,648	2,999	2,411	1,803		2,149	1,695	1,163
1965–66:[2]										
Public	1,595	1.3	1,792	1,462	1,087	418	3.7	530	389	177
Nonpublic	3,253	2.9	3,756	3,078	2,526	1,872	3.8	2,220	1,762	1,246
1966–67:[1]										
Public	1,615	1.3	1,842	1,489	1,117	433	3.6	566	407	190
Nonpublic	3,342	2.7	3,864	3,158	2,641	1,940	3.6	2,291	1,828	1,329
1967–68:[2]										
Public	1,619	.2	1,825	1,517	1,200	431	−.5	557	408	218
Nonpublic	3,356	.4	3,873	3,204	2,683	1,974	1.8	2,335	1,884	1,359
1968–69:[1]										
Public	1,624	.3	1,808	1,544	1,283	429	−.5	548	408	247
Nonpublic	3,372	.5	3,883	3,249	2,725	2,009	1.8	2,370	1,939	1,389
1969–70:[2]										
Public	1,652	1.7	1,868	1,560	1,305	444	3.5	586	421	245
Nonpublic	3,473	3.0	4,004	3,319	2,734	2,103	4.7	2,481	2,015	1,418
1970–71:[2]										
Public	1,680	1.7	1,928	1,576	1,327	459	3.4	624	434	243
Nonpublic	3,573	2.9	4,125	3,389	2,743	2,197	4.5	2,583	2,091	1,447
1971–72:[1]										
Public	1,708	1.7	1,988	1,590	1,351	473	3.1	662	446	242
Nonpublic	3,672	2.8	4,248	3,458	2,751	2,291	4.3	2,685	2,166	1,475
1972–73:[2]										
Public	1,701	−.4	1,933	1,622	1,365	484	2.3	648	474	258
Nonpublic	3,604	−1.9	4,186	3,412	2,720	2,261	−1.3	2,660	2,148	1,468
1973–74:[1]										
Public	1,692	−.5	1,878	1,656	1,379	494	2.1	634	503	273
Nonpublic	3,536	−1.9	4,125	3,365	2,689	2,231	−1.3	2,635	2,129	1,460
1974–75:[3]										
Public	1,708	.9	1,903	1,682	1,420	503	1.8	653	515	285
Nonpublic	3,592	1.6	4,193	3,419	2,724	2,290	2.6	2,701	2,188	1,496
1975–76:										
Public	1,735	1.6	1,933	1,711	1,460	509	1.2	658	524	287
Nonpublic	3,652	1.7	4,266	3,482	2,768	2,333	1.9	2,744	2,229	1,576
1976–77:										
Public	1,769	2.0	1,963	1,739	1,501	537	5.5	685	554	349
Nonpublic	3,676	7	4,339	3,547	2,813	2,283	−2.1	2,684	2,184	1,568
Change, 1964–65 to 1976–77:										
Public	194	12.3				134	33.3			
Nonpublic	515	16.3				480	26.6			

[1] Represents charges weighted by numbers of full-time degree-credit students for 1964–65; weighted by full-time resident students for 1966–67; by full-time undergraduate degree-credit students for 1968–69; by total full-time students for 1971–72; and by full-time equivalent resident degree-credit students for 1973–74. Publicly controlled 2-year institutions which reported a zero tuition charge are included in tuition calculations. Institutions which did not offer board or room are not included in calculations of average board or room charges. Charges shown in table 3 in current dollars were converted to 1974–75 constant dollars by application of the Consumer Price Index.

[2] Interpolated.

[3] Estimated.

Note: Data are for 50 States and the District of Columbia for all years.

Source: U.S. Department of Health, Education, and Welfare, National Center for Education Statistics publications: (1) Higher Education Basic Student Charges, 1964–65, 1966–67, 1968–69, 1971–72, and 1973–74; (2) Opening Fall Enrollment in Higher Education, 1964, 1966, 1968, 1971, and 1973. Also, Student Expenses at Postsecondary Institutions, CSS, annual.

[From "Parade," the Washington Post, Feb. 27, 1977]

FUTURE SHOCKS

It's incredible, shocking and depressing, but if you have a 1-year-old child whom you plan to send to a four-year university in the 1990's it will cost $47,330 at a state school and $62,830 at a private one.

The figures in the chart were compiled by the Oakland Financial Group of Charlottesville, Va., which based its estimate of future college costs on an annual inflation rate of 6 percent and included tuition, room, board, travel, books and incidentals.

State university—Child's current age:	4-yr cost	Annual savings required	Private college—Child's current age:	4-yr cost	Annual savings required
1	$47,330	$1,570	1	$82,830	$2,750
2	44,660	1,610	2	78,160	2,820
3	42,150	1,650	3	73,760	2,910
4	39,770	1,710	4	69,500	2,990
5	37,530	1,780	5	65,680	3,120
6	35,420	1,860	6	61,990	3,260
7	33,000	1,930	7	57,750	3,380
8	30,710	2,010	8	53,740	3,520
9	28,940	2,140	9	50,550	3,750
10	27,270	2,300	10	47,720	4,030
11	25,690	2,500	11	44,960	4,380
12	24,200	2,760	12	42,350	4,830
13	23,110	3,160	13	40,440	5,530
14	22,090	3,720	14	38,660	6,510
15	20,840	4,500	15	35,470	7,880
16	19,660	5,800	16	34,410	10,150
17	18,550	8,420	17	32,460	14,740
18	17,500	16,200	18	30,630	28,390

TABLE 10.—PERCENTAGE OF TOTAL COLLEGE COSTS PAID FROM VARIOUS SOURCES, BY INCOME LEVEL

Source	Parental income level: Low (<$8,000)	Middle ($8,000 to $19,999)	High ($20,000 or or more)	All students
BEOG	27.0	7.3	1.5	8.3
SEOG	3.2	1.1	.2	1.1
State scholarship	5.9	4.7	1.4	3.7
Local, private scholarship	4.0	4.5	2.6	3.8
Student's GI benefits	1.9	1.0	.4	.9
Parents' GI benefits	1.0	.6	.3	.5
SS dependents' benefits	5.4	1.8	.7	1.9
Total grants	48.4	21.0	7.1	20.2
Parents or family	18.6	36.8	62.9	43.1
Spouse	.7	.4	.3	.4
Total, family assistance	19.3	37.2	63.2	43.5
Total, grants and family assistance	67.7	58.2	70.3	63.7
College work study	4.3	2.3	.6	2.0
Federal guaranteed student loan	2.6	3.6	1.8	2.8
National direct student loan	3.0	2.6	.7	2.0
Other loan	1.3	2.0	1.3	1.6
Full-time work	2.0	2.5	1.8	2.2
Part-time work	10.0	15.5	12.2	13.5
Savings	7.0	11.2	9.4	9.9
Other financing	2.0	1.9	1.8	1.9
Student net cost	32.2	41.6	29.6	35.9
Grand total	99.9	99.8	99.9	99.6

Note: Totals do not equal 100 percent due to rounding.

Source: Unpublished analyses conducted by the Higher Education Research Institute based on data from the national survey of freshmen entering college in 1975 as reported in Astin, A. W.; King, M. R.; and Richardson, G. T. The American Freshman. Los Angeles: Laboratory for Research in Higher Education, University of California, Los Angeles, 1975.

Middle-Class Attrition 1969–74

(Estimates from Census Bureau Data)

1. There are approximately 11.25 million students in post-secondary education.

2. Roughly 39.3 percent are "middle income" (families earned between $10,000 and $20,000 in 1974 dollars).

3. $\therefore 11.25 \times 39.3\% = 4.42$ million are m-c students (based on the 1974 percentage).

4. But the enrollment *rate* for middle income students declined by approximately 8.8% between 1969 and 1974.

(*a*) This represents a *percentage* decline of $\left(\frac{8.8}{39.3}\right) = 22.4\%$.

5. $\therefore \frac{4.42M}{(1 - .224)} = 5.73M \qquad 5.73M - 4.42M = 1.31$ million.

Thus the estimate is that if the higher education conditions of 1969 had prevailed in 1974, 1,310,000 more middle-income students would have been in college in 1974 than was the case.

Mr. Simon. We thank you for your testimony. I am curious as to your reaction to the Mikva proposal.

Mr. Coughlin. I think the Mikva proposal has merit. I think there are a number of proposals that have merit. I think the tax credit proposal has the most merit, however, because it is simpler to administer. It can be called simplistic and in fact it is simplistic and this is one of its great benefits. It is easy to do, easy to administer, and provides an immediate method of getting help for people in those critical years that Mr. Mikva mentioned.

Mr. Simon. What is your reaction to the suggestion that has been made by a few people now who have looked at the problem, where the problem comes about through there being two or more students in the family. Suppose your suggestion was applied only in that area. It would obviously offer relief to a substantially fewer number of people, but people who are really hit particularly hard. What would be your response to that kind of suggestion?

Mr. Coughlin. I guess I feel there should not be a premium on the number of people in your family so that getting a college education for even one person in the family is very significant and a very significant contribution to society as a whole, so that it should not be limited to those with two or more in college at one time.

Mr. Simon. Mr. Mineta.

Mr. Mineta. I haven't had a chance to go through your full statement, Mr. Coughlin, but I was wondering whether or not we would be better off in fully funding educational programs rather than a system of tax credits; whether or not we should make law, or any of the educational student loan programs, guaranteed programs—should we be doing more in that area than trying to end-run an objective by a tax credit, or Mr. Mikva's program, or any other program?

Mr. Coughlin. I think Mr. Mikva pointed out that we do a reasonably good job at this point in history taking care of the very poor and the very wealthy are able to take care of themselves. We have a number of grant programs that help the disadvantaged to obtain a higher education. The statistics I cited which are very valid, indicate just that fact, that it is the middle-income group which is having the most difficult time.

Therefore, to me, a tax credit proposal—I realize this is a limited proposal; it is taking a limited period of time in people's lives when their expenses are the highest and when they are the most financially hard pressed and saying, "During that period of time we will give you some help." That is the middle-income families which can normally provide for their children in other years. To me that is very significant.

Mr. Mineta. If we were to take those same figures of the loss of tax revenue and put them directly in a loan program, I wonder whether we wouldn't be getting more out of it than through the cash credit system.

Mr. Coughlin. To me the credit system is perhaps the most efficient system of accomplishing the end result. If you are going to go through the paperwork of having people apply and justify need, you are going to end up draining off the top a great deal of money in the administration costs whereas with the tax credit approach that administrative cost does not apply, making it much more simple to administer.

Mr. Mineta. Thank you very much, Mr. Coughlin, for your thoughtful presentation. This whole area is an intriguing one. There is the fear of loss of revenue which you bring out. The taxpayers themselves are able to deal with the situation directly.

Mr. Coughlin. There is also a freedom of choice factor that goes into this that I think is also important.

I might say, Mr. Chairman, this is something we have been working on for a number of years now and have spent a great deal of time and thoughtful study on it.

I realize there is no one easy solution or perfect solution. Perhaps the simplest way to do it is the best way from the standpoint of providing assistance to families in this limited period of time when they really need help.

Mr. Mineta. There is some question about whether the programs in existence right now are really doing the job. I do have some reservations about the present programs. We have the student loan program and these other aid programs. I am not sure they are really doing the job as they should be. It seems to me somewhere between strengthening those programs and a tax credit, somewhere in there there has got to be a solution to this. Thank you very, very much, Mr. Coughlin. Thank you, Mr. Chairman.

Mr. Simon. Thank you for your testimony. Mr. Corcoran you may proceed.

STATEMENT OF HON. TOM CORCORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Corcoran. Mr. Chairman, I am very pleased to be here this morning to testify on the concept of college tuition tax credits. I had considered last night, as I was preparing for the actual oral testimony, that I might summarize my statement, but I think it might be better served to read it because I have tried to be precise in my comments and not extensive on rhetoric.

The idea of tax credits for postsecondary education is not a new one. Twice during 1976 the Senate passed such legislation and the other body has passed similar legislation before, as you know.

This House, for what reasons I do not know, has rejected this legislation.

Similar legislation has been introduced again this year in the Senate and I have come to join Senator Roth, of Delaware whose testimony will be a part of this record, in urging that you look with favor on our proposal.

The costs of a college education are rising at a terrifying rate, while we struggle just to keep our heads above water with paychecks that always seem just a little too short.

Consider for a moment these facts supplied to me by the House Education and Labor Committee: The cost of 1 year in a public college will be 4 percent higher in the 1977-78 school year than it is in the 1976-77 school year. At private schools, the increase will be 5.2 percent. This is not an isolated instance. The trend of higher and higher college costs is persistent

In the years between 1970 and 1977 the cost of tuition alone increased 57.2 percent at public colleges and there is no end in sight. If you have an 18-year-old child, one who plans on entering college next year, it will cost you on the average, $17,500 for 4 years at a public university. If, on the other hand, your child is in the first grade this year, you can plan on spending $35,420 for his or her bachelor's degree. Finally, if your child is born this year, college costs will be $47,330 for 4 years by the time the child enters college.

To meet this expense, you would have to save $1,570 every year. In addition, if you want your child to attend a private college, and about one-fourth of our college students do go to private institutions, the cost for a baby today will be $82,830 by the time he or she reaches college age.

So far, I've talked about 4-year colleges and universities. What about those students who prefer a 2-year school—either a junior college or a vocational school? The increase in cost at 2-year schools has risen over 130 percent since 1970. It now costs nearly as much to attend a 2-year school as it did to attend a 4-year school not that long ago.

During the past 2 years, State support for education, on a per student basis, and adjusted for inflation, has declined in about one-half of the States. This creates still another pressure toward increased costs for postsecondary education.

The result of this increase in the cost of postsecondary education is quite simple, and equally frightening. Many able and eager young students are being priced out of school. They are being denied what most Americans have always considered a basic right—the right to better themselves through education.

I am aware of the studies which show that today a college degree does not mean a person will automatically get a better job, or that he will be better paid. Indeed, Mr. Chairman, we all too often equate a better job or higher pay with a better person. I believe that we, in the United States, are guilty of perverting the idea of what a college education, or indeed any education, is. Education, especially at the postsecondary level, should not be merely a training program for some job. Education should be nourishment for the mind and heart; it should contribute to the creation of a thoughtful, well-rounded person—one who is equipped to apply his God-given talents and abilities to the problems of everyday life; problems which are becoming increasingly complex.

So, Mr. Chairman, because education is so important, I am worried. I am worried by the increasing numbers of young people in all income brackets who are no longer going to college. I am most concerned, though, with figures which show that the biggest decline in students attending college is in the middle-income range; that is, from families whose income is between $10,000 and $15,000 per year. During the 1974-75 school year, there was a drop of nearly 7 percent in students entering college from middle-income families as compared with the 1972-73 school year.

These figures make it clear, at least to me, that something needs to be done. It is equally clear that the guaranteed student loan program, the national direct student loan program and other loan programs like them are not the complete solution. Both of these programs are costly to administer, and both have very high default rates.

For example, 4 years ago Congress appropriated $40 million to cover defaults on these loans. This past year five times as much money—$200 million—has been appropriated for defaults. In addition, President Carter has proposed elimination of the NDSL program, which is one of the largest of the student loan programs, in his fiscal year 1978 budget.

I think the legislation Senator Roth and I have introduced—an income tax credit for postsecondary education expenses—can be a viable replacement.

This legislation provides a meaningful incentive for parents to continue the education of their children beyond elementary and secondary levels. Known as, the College Tuition Tax Relief Act of 1977, this bill would provide tax credits for college education expenses paid by an individual for himself, his spouse, or his dependents. The amount of tax credit is an incremental progression: $250 in 1977; $300 in 1978; $400 in 1979; and $500 in 1980 and thereafter.

These credits would apply to tuition, fees, books, supplies, and equipment required for courses of instruction of eligible public and nonpublic institutions. Only full-time students are eligible for this credit who are above the secondary education level and attend an institution of higher education—including community colleges—or a vocational school. Such a tax credit would have three advantages.

First, and foremost, it is aid directly to those who bear the brunt of college costs, especially the middle class, which has financed most student aid programs while being denied the benefits of those programs. Every student, or the parent of a student who is not self-supporting, can take advantage of the credit. It is a form of aid with a few strings attached.

Second, the tax credit is simple and inexpensive from an administrative point of view.

Finally, the cost of the program, in terms of revenue loss, would not be prohibitive. The revenue ceiling in the fiscal year 1977 budget is $348.5 billion. According to the figures I've been given by the Joint Committee on Taxation, the revenue loss from a tuition tax credit, if it became effective on June 30, 1977, would only be $138 million, or less than three one-hundredths of 1 percent of total revenues. In fiscal year 1978, when the credit would be increased from $250 to $300, and when the proposed revenue ceiling will be $396.3 billion, the revenue loss would be $988 million—still only about one-quarter of 1 percent.

In the Federal budget for 1977, only 2 percent was spent on education. If we consider the revenue loss from a tuition tax credit as an expenditure, we will still be spending less than 3 percent of our budget for higher education. Is such an expenditure out of line when we in Congress spend more than that on our own operations? In a world which grows more intricate with each passing day, we must educate as many of our young people as we can; educate them not only in terms of vocational skills, but in terms of knowledge itself.

In short, Mr. Chairman, we must school our young people in the way to learn. We must instill in them the thirst for information, the desire to seek out all the mystery that life has to offer and to use it for their own betterment. It is for that reason that I urge this committee to support this legislation. Thank you, and I would be happy to entertain any questions.

Mr. SIMON. Thank you for your testimony.

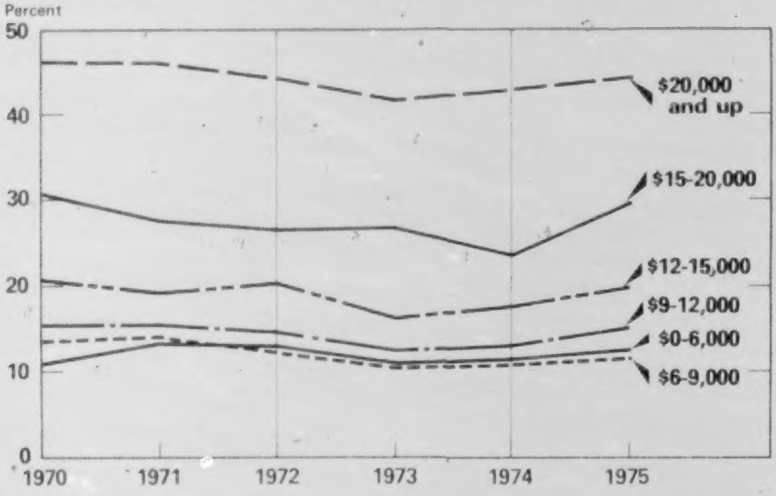
I would like to insert, if I may, at this point in the record a graph from a budget issue paper of February 1977, postsecondary education and the current Federal role and alternative approaches which shows the percentage of those attending college and from an income group. While there is some fluctuation, the lines appear to be fairly stable.

I am not sure whether this graph is correct or your statement or that of Representative Coughlin is correct. But I insert it in the record just to suggest there is some question on that particular aspect of it.

[The graph referred to follows:]

Figure 2.

Percent of 18-24-Year-Old From Primary Families Enrolled Full Time in College by Family Income: 1970-1975



Source: Appendix Table A-5

Mr. SIMON. You heard the testimony, or maybe you did not, I don't know that you did, the testimony of Representative Mikva.

Mr. CORCORAN. I heard part of it.

Mr. SIMON. His idea is basically for a determination of taxes rather than a tax credit. It has the disadvantage of some administrative complications. It has a disadvantage in having a large initial startup price though it obviously does not have the long-range expenses that yours involves. I am curious about your reaction between the two programs.

Mr. CORCORAN. I have not had a chance to really examine the proposal of Congressman Mikva. I think the idea of tying into taxation is common to both proposals and that it would be desirable.

There are arguments against this concept. But I think we must recognize that we are today involved in utilizing the tax system for expenditures to meet certain social and other goals. I personally would like to see an overall adjustment in the way we use our tax system so it would concentrate more on revenue rather than achieving other goals.

But it seems to me the die is cast in that respect and that when we look at the problem which Congressman Mikva has addressed, Congressman Lawrence Coughlin has addressed and others in addition to myself, I think we must recognize that it is quite serious. Among students coming from the middle-income area we see quite a decline in the student population.

The results, I think, are very, very frightening from the standpoint of what this country has always stood for. I would not be in a position to sit here today as a Congressman from the 15th District of Illinois were it not for the opportunity given to me to pursue a college education. I think if we see people in the middle-income area who are, because of price and cost, being denied that opportunity, we must look for a simple, viable means of providing assistance.

One other alternative would be still another Government program. However, I think if you look at the default rate of the existing student aid programs, there is serious doubt about the viability of that approach. I don't think another such Government program is the answer.

Mr. SIMON. There is no question that the default problem is a very real one and is being addressed some, but perhaps not as effectively as it should. Sort of a basic assumption that you make and our two colleagues who testified before you make is that this type of credit will encourage more people to go to college. Do you think that is a correct assumption or not?

Mr. CORCORAN. That is an assumption that I am making. I say that because while the amount of money, $250 the first year and up to a cap of $500 in 1980 and thereafter is not a significant amount of money, particularly when you look at the projections as to what the cost of education will be several years hence, assuming a rate of inflation of 6 percent.

I think that the assumption is a valid one because people who are today in a position of trying to decide whether or not to send a high school senior in their family on to college would, under my proposal, have facing them the prospect of a $1,450 tax credit over that 4-year period. I think that while that would not be a complete financial solution to their problem, it would be an incentive. I think that is what we are looking at. Furthermore, the credit would tend to offset increasing cost.

I think also that we must, as I am sure you know, encourage more people to work while they are going to school. I think that can be done. Many people are doing it and maintaining a full-time status in college. We are not talking about a complete financing of college costs with the tax credit.

In fact, I think if you look at other recent Government programs where there is complete financing by the Government, that has somewhat of a negative effect on the incentive and performance of the beneficiary.

So it seems to me that so long as you can provide enough incentive to make a slight difference, I think that is a valuable step in the right direction.

Mr. **Simon**. One final question and I will yield to my colleagues.

You cite the figures, 1970 to 1977, the cost of tuition has increased 57.2 percent in public colleges. Those who oppose the program will say in response, in fact the average family income has increased more than the 57 percent. So that for the average family there in fact has been a decline in cost.

Mr. **Corcoran**. The income for an average family has certainly increased over that period of time just as inflation affects everything. But the problem from the standpoint of the family is that not only has the cost of education increased, but all other costs have increased. So that as a percentage of disposable income, I think they are in a difficult position.

Second, it seems to me that education, because of changes in our society, is not receiving the kind of emphasis as a means of a person bettering himself as it once did. I think one other advantage of our program is that when you look at its administration, we would put the burden back on the family.

Right now we have testified, in my testimony and others about the discouraging default rate in the current programs. I think it would be better to put the burden through the means of a tax credit back on the family to be responsible for the financing of the student's education.

I suspect that one result might well be that you would have better performance in school and possibly not the same development with respect to attitudes toward the loan itself.

Mr. **Simon**. Mr. Lehman.

Mr. **Lehman**. I would just like to pursue one point that I have run into on this question. A family asked me, "If you give us a tax credit for postsecondary education, why won't you give us tax credit for private schools in kindergarten through 12th grade?" That is a tough question to answer.

I wondered how you would respond. Is it fair to give a family a tax credit for sending their 19-year-old son or daughter to college but not give the same family a tax credit for sending their 16-year-old son to Exeter?

Mr. **Corcoran**. In a way that is a difficult question. It seems to me if you look at the system of education we have in this country, you will find that fortunately, in my opinion at least, elementary and secondary education has remained primarily a local government responsibility.

We are looking here at the fact that this Government, the Federal Government, is proposing to spend a significant amount of money today for Federal aid to higher education. What we are asking for, I think, in this proposal is some reevaluation of the current programs providing assistance, especially student aid in the field of higher education.

It seems to me that when you see the default rate increasing, the possibility of going to a different means of——

Mr. LEHMAN. Could you yield back? I, too, would like to see something substituted for the present way. But it bothers me that you propose a tax credit for an elitist kind of postsecondary training—college—with no relief for a middle-income family who feel very strongly that they should send their child to some special kindergarten through 12th grade that would suit that particular child's needs or abilities. Nor do you offer help with education in addition to their regular public schooling, that is, parallel education in art or music, perhaps. These are also part of education.

What bothers me, I guess, is that you take a relatively small segment of the educational process and grant it a tax credit and leave everything else without a tax credit. You excluded technical training schools, perhaps, or in some cases, the kind of special training a kid needs if he has had learning difficulties and the like. It is also very difficult because only about 17 percent of jobs require a college education.

I have a difficult time explaining when I say I believe in a tax credit for middle-income families for colleges and people say, "Well, why don't you extend that to something else?" I have a hard time explaining that.

Mr. CORCORAN. It is hard to correlate the concern you have for kindergarten through 12th grade with postsecondary. But with respect to postsecondary, I think the value of this approach is certainly that it is not an elitist approach at all. This would apply to both public and nonpublic schools. It would apply to community colleges and vocational schools. The person who gets the $250 tax credit could apply it to tuition, books, room, and board or other expenses for any kind of postsecondary education.

Mr. LEHMAN. I have no other questions. I think we are both on the same path. It is a question of trying to work the semantics.

Mr. SIMON. Mr. Mineta.

Mr. MINETA. Thank you very much for your testimony. I see that yours is only for full-time students.

Mr. CORCORAN. That is true.

Mr. MINETA. Why is it that you don't extend it to, let's say, a person who does have to work to try and stay in school and yet maybe is 3 units shy of what is considered full-time, 3 units. A person taking 12 units would not be eligible for this tax credit.

Mr. CORCORAN. First of all, the reason I am sponsoring H.R. 6301 is because it is identical to the legislation that Senator Roth has introduced in the other body and which has twice passed the Senate. This is the first time there has ever been a hearing on the concept in the House.

I would repeat what my colleagues have indicated and that is that the particular approach that we are suggesting here with respect to amounts and eligibiity is something that I don't see as being totally inflexible at this point.

But it seems to me that as a starting point or a point of departure for a tax credit concept, its application to full-time students is a good beginning point.

With respect to part-time students, I think that there are work-study programs already established which would be available to those students who need that kind of assistance in order to go on to school.

Second, it seems to me if you look at some of the changes that are taking place within industry, you will find on many occasions that the corporations are providing financial help for students who work there on a part-time basis and go on to college or to some other advanced training program.

I think that is a different kind of an objective than the simple liberal education which I think is important to the character of American society.

Mr. MINETA. If we were to increase the eligibiity standards to, let's say, have more middle-income families eligible for the programs that are in existence right now and fund those more fully, would that be cheaper and not as expensive in terms of the Federal loss of revenues?

Mr. CORCORAN. I don't think it would be cheaper. You have to factor in the administrative costs that go with the current programs, I think there are something like eight or nine current Federal student aid loan programs. I think that there is a heavy price that is paid by the taxpayer for the cost of administering those programs.

It seems to me that as has been pointed out on several occasions, the value of this approach is that it is not just limited to the middle class. Everybody is eligible for it. It turns out that we have, because of the existing programs today, some assistance for those students who are at the lower end of the economic spectrum.

But from the standpoint of trying to provide another Government program or expand the existing ones for greater coverage, I think the cost of that would be rather substantial. I don't think we need to do that in order to solve this problem.

Mr. MINETA. I guess I could be very facetious and say why we should allow the students from middle-income families to escape the burdens of having to go through the bureaucratic paperwork of student loan programs that the disadvantaged have to go through right now.

Mr. CORCORAN. In fact, I think the point is well taken because of the evidence we have seen in recent years when the programs themselves are not working. For instance, the guaranteed student loan program, is not working, not only because of the high default rate, but because many private lenders are reluctant to continue to finance student loans. This has certainly lessened the participation in the program.

Mr. MINETA. I think we have two major banks that are involved in that program in my district.

Mr. CORCORAN. That is a sad state of affairs. How do we go about changing that? Do we legislate more of the same or take another course? I think the legislation we are discussing this morning suggests a different course which I believe would get at the problem better.

Mr. MINETA. You say this program would be applicable across the whole income scale. I wonder if a person can take advantage of the BOGG grants or the guaranteed student program or the direct student loan program as well as being able to get the tax credit?

Mr. CORCORAN. I would have to look at the eligibiilty requirements for the current student aid programs to be sure. I really don't know. I think not.

Mr. MINETA. I just wanted to make a comment on your statement on page 6 about, "Is such an expenditure out of line when we in Congress spend more than that on our own operations?"

If you look at the budget, I think the legislation expenses account for about one-fifth of general government. I think that is really less than 1 percent rather than the illusion of 3 percent that you mentioned on page 6.

Mr. CORCORAN. My comparison is suggested by the difference between educational expenditures at the Federal level and the increased Government costs as provided by H.R. 6301. The added percentage would account for approximately less that 1 percent which is close to the congressional budget expenditures.

Mr. MINETA. That would still be less than 1 percent of our total budget. I think it is .086.

Mr. SIMON. Thank you very much for your testimony, Congressman Corcoran.

Congressman Crane has been waiting very patiently and we have a situation where Senators Roth and Schweiker are both here.

I yield to my colleague from Illinois. We have promised the two Senators we would get them on as rapidly as we could. I defer to your judgment here, Bill. You will yield to the Senate? I hope the two Senators will keep that in mind when Bill comes over to the Senate.

While the Senator is approaching, I might remind him that I think he and I may be the only alumni of the University of Oregon in Congress. I am sure that is correct. I don't stress that a great deal in Illinois and my guess is that you don't stress that a great deal in Delaware.

STATEMENT OF HON. WILLIAM V. ROTH, JR., A SENATOR FROM THE STATE OF DELAWARE

Mr. ROTH. I am afraid I was a perpetual student who went to school on both coasts. I look back with great favor on the University of Oregon.

I would like to thank you for holding these hearings. I apologize that we had to delay our being here. As you know, the President did have a debriefing on his trip overseas and I was anxious to participate in that as well. With your approval I would like to submit my prepared statement for the record and speak extemporaneously for a few minutes and then answer whatever questions you and your colleagues may have.

Mr. SIMON. Your statement will be entered in the record.

Mr. ROTH. Mr. Chairman, I feel that you and your subcommittee have provided a great service in holding these hearings. Insofar as I know, I think it is the first time that any committee or subcommittee on this side of the Congress has done so.

I feel very strongly that an educated American is a strong American. To me, the college tax credit is an investment in America's future. I think it is a program whose time has come.

I think you are well aware of the fact that in the Senate last year the other chief sponsor of this legislation, Senator Ribicoff and I introduced this legislation and got the Finance Committee to act favorably on it for the first time. We got the Senate to adopt this legislation twice. Unfortunately, we were never able to get a vote on this side, although at one stage there had been a promise that there would be a separate vote on this piece of legislation.

In the closing days of the last session there was agreement that serious consideration would be given to this legislation on the House side during this session as well as on the Senate.

The reason I say I think this legislation's time has come is that you just have to look at the broad spectrum of support this bill has, on the Senate side from so-called liberals to so-called arch-conservatives. I have already mentioned that Senator Ribicoff is the other chief sponsor. Some of the other sponsors include Hubert Humphrey, Barry Goldwater, Senator Magnuson, who has taken a keen interest in education, Bob Dole, Frank Church, and Bennett Johnston.

So you have a wide spectrum of support. That is the reason I think the legislation, when it gets to a vote, has such broad support on the floor.

I am extremely concerned that middle America is finding it so extraordinarily difficult to send their children to school. The reasons why I think are very obvious.

In the last 5 years your enrollment of students from middle America has gone down something like 22 percent, whereas students from families in the upper brackets and those in the lower bracket have remained relatively the same.

Although some of the attendance decline is attributed to the ending of the draft, that would have had an impact on all groups. I believe attendance has declined primarily because of the increasing costs.

The annual cost of an education, in the case of a public college, in the last 5 years has gone up from $1,782 to nearly $2,790. That is a 40-percent increase in the cost of sending a child to a public college.

The same has happened to private education. The annual cost of a private college has gone up from $2,793 to nearly $4,568 or a 35-percent increase in the last 5 years. It is estimated that if you are planning to send a child to school starting in in the fall of 1977, public schools will cost an annual total of $2,906 and the private schools will cost $4,811 a year.

These tuition costs will continue to increase. If you have a 1-year-old child—I have a 7-year-old so I am looking down the road a little bit—4 years of a college education is estimated to cost $47,000 in a public school and a total of $82,000 in a private school.

So it is no wonder that working Americans, particularly middle-income people, are having a very serious time sending their children to school. I think the need for relief is clear.

Mr. Chairman, I am sure when you sit in your own cloakroom, as I do in mine, you sometimes hear some of our colleagues talk about the difficulty they are having in sending their children to school. It was just last summer that the U.S. Commissioner of Education resigned saying that the reason he resigned was that he could not afford to send his children to college on a salary of $37,800.

I would like to read what a New York Times editorial said on that point:

> Coming from the high ranking Federal officer, an otherwise very personal decision makes a point of considerable public interest. It underscores the damaging impact of the appalling inflation in college costs. The state of affairs that make it difficult for parents in the $37,000 income bracket to finance their children's higher education suggests outright disaster for the vast majority of American middle-class families who are considered too affluent for State, Federal grants and other aid.

I think it would be worthwhile pointing out that there was an article in the New Republic in January along the same lines. It made the same point the New York Times editorial did that middle America is now facing downward mobility. They expressed great concern about this, the New Republic does. It says, "For the first time in our history, depressions aside, middle-class Americans can reasonably anticipate for their children the long-range prospect of downward mobility."

The magazine points out that no matter how hard they work and both spouses work pretty hard, middle Americans can no longer afford the great American dream. A part of that American dream has always been to offer your children the chance for a higher education of one type or another. We are finding this dream being set aside. That is the issue we are trying to address today.

Now some people think we should just broaden the Federal grant program. I am a strong supporter of the programs that we have on the books. I think it is only right that we try to help those on the lower economic scale to go to college and improve their standard of living.

But the same thing is true for the people who are making $20,000, $24,000 and $30,000. They are entitled to that dream, too.

I thought it was very interesting that the New Republic, and that is a liberal magazine, said what's wrong with helping the people who make $25,000 or $30,000? They are entitled to tax relief too. That is what I am suggesting to you today.

I wish you could have been on the Senate floor one day last year when John Pastore, one of our most gifted orators, and a great liberal, got up on the floor and defended this college tax credit against the arguments some of our colleagues made that we ought to broaden the college grants or loans.

He said most eloquently that that is not what the working Americans want. They do not want a handout. They want the right to keep their own earnings to send their children to college. That is what it is about.

He said, "It is not fair to expect all these people to come down here to Washington to spread out all their financial and other records in order to keep some of their own taxes to help their own children." I think he is exactly right. That is what we are trying to do here with this proposal.

I think some of your prior witnesses have already discussed the Roth-Ribicoff proposal.

We are suggesting that there be a $250 tax credit the first year, starting January 1 of next year, increasing in incremental stages to $300 the second year, $400, and finally to $500 in 1981. Benefits of the 75-percent tax credit would go to people making $30,000 or less. The first fiscal year, budget year, it would cost roughly $175 million to put it into place. By the end of 1981 it would cost roughly $1.9 billion. I think that is a very reasonable price for future America.

How much more expensive is it to deny millions of young Americans the opportunity for upward mobility that a college education offers? I personally think the revenue impact would be a worthwhile and necessary investment, an investment that would ultimately be returned in higher earnings, better job opportunities, and even higher revenue for the Federal Government.

With that I will be happy to try to answer any questions that you have, Mr. Chairman.

[The prepared statement of Senator Roth follows:]

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

Thank you very much Mr. Chairman for inviting me to testify on my legislation to provide tax credits to help offset college tuition costs. As far as I know, this may be the first time a committee of the House of Representatives has ever held comprehensive hearings on college tax credits.

Increasing college tuition costs, higher prices, and a growing tax burden are making it more and more difficult for qualified middle-income students to go to college.

That is why I have again this year introduced legislation to provide tax credits for college education expenses. This legislation, the College Tuition Tax Relief Act of 1977 (S. 311), provides tax credits for education expenses paid by an individual for himself, his spouse, and his dependents. To be eligible for the credit, an individual must be a full-time student at an institution of higher education or at a vocational school. The amount of the tax credit is to be $250 the first year, increasing in incremental stages to $300 the second year, $400, and then $500.

Last year the Senate twice overwhelmingly endorsed my college tax credit legislation by votes of 68 to 20 and 62 to 21. The legislation was initially approved by the Senate Finance Committee and adopted by the full Senate as an amendment to the tax reform bill. The Senate approved the legislation a second time after members of the House Ways and Means Committee made a commitment to bring the college tax credit up for a House vote in a separate piece of legislation. Unfortunately, the press of business prevented a House vote before the 94th Congress adjourned.

I am convinced that Congress can, and must, enact this legislation to provide tax relief to the millions of families struggling to send their children to college. According to the statistics, there is a growing number of qualified students who are prevented from obtaining a higher education because of increasing costs.

In the past few years, the cost of a college education has skyrocketed. According to the College Entrance Examination Board, the average annual total cost of a public university has increased 40 percent in the past 5 years, from $1,782 to $2,790. For a private university, the average annual total cost has increased 35 percent, from $2,793 to $4,568. And according to a New York Times survey, the total annual costs at many colleges and universities are as high as $7,000.

Tuition costs will continue to increase. If a parent has a 1-year-old baby today, it has been estimated that it will cost $47,000 to send that child to a public university and $82,000 for a private university in the 1990's. For a student entering college next fall, the total cost will be $17,500 for a public university and $30,000 for a private college.

These increasing costs are a primary reason why college attendance has declined in the past few years. The U.S. Census Bureau reports that there has been a significant decrease in the percentage of 18- to 24-year-old dependents attending college full time. In addition, U.S. Census Bureau data shows that families are especially hard hit right now because many of them have more than one child of college age at the same time. These families face the difficult problem of educating two or more children over an 8- to 10-year period.

Middle-income families are especially hard hit by the increasing college education costs. There are millions of families today who are neither affluent enough to afford the high cost of college nor considered poor enough to qualify for the many different Government assistance programs which their taxes make possible.

As a result, college attendance of middle-income students has declined substantially in the past few years. Between 1969 and 1974, college attendance for children of middle-income families declined at a rate of 22 percent, while enrollment for lower and higher income students remained fairly stable.

Mr. Chairman, we are rapidly approaching a situation in this country where only the very affluent and the very poor will be able to attend college, and I am convinced that action must be taken to ease the financial plight of middle-income families.

I respectfully disagree with the administration's argument before this committee that college tax credits are unnecessary because Government assistance programs have increased substantially over the past 10 years.

Government assistance programs have increased substantially, but these assistance programs are aimed almost exclusively at lower income students and are denied to middle-income students. For example, as of January 1975, less than 4 percent of the basic educational opportunity grants, the main Federal college assistance program went to families earning more than $12,000 a year.

I strongly support financial assistance programs for lower income families, and I do not believe that the enactment of college tax credits would lessen Congress' commitment to these assistance programs. But we must not lose sight of the fact that the families who are paying the taxes to finance these programs are themselves finding it more and more difficult to educate their own children.

As a New York Times article has said, the difficulty that these parents are having in sending their children to college suggests "outright disaster for the vast majority of American middle-class families in the $12,000-$20,000 range who are considered too affluent for Federal or State scholarship aid."

The editorial goes on to urge the Federal Government "to open its eyes to a clear and present danger—that college gates are being shut to increasing numbers of able, middle-class young people on economic grounds alone. Nothing less is at stake than the future of an open, upward-mobile democratic society."

The administration also believes that if any increased Federal financial aid is to be given, it should be in the form of a Federal grant, based on financial need.

An expanded system of Federal grant is not the solution for the financial burdens of the middle class. America was built on hard work and perseverance. We cannot and should not sap the productive energies and self-reliance of our working people with more and more Government aid programs. Rather, let us build on the spirit that made America great by enabling our working people to keep more of what they earn to pay their own bills and not the Government's.

I believe there is something fundamentally wrong in the growing concept that working American taxpayers should come to Washington to apply for Government aid programs financed by their own taxes. Rather than "helping" people by requiring them to fill out detailed forms, baring their personal finances and pleading poverty in order to receive a portion of the money they have already paid in taxes, Congress should allow taxpayers to keep a larger portion of their own income to spend on education expenses.

Working Americans, caught in the middle, do not want a Government handout. They merely want to keep more of what they earn to spend on such basic American rights as a college education for their own children.

Mr. Chairman, and members of this committee, I believe there is a clear and vital need for the adoption of this legislation. I realize that many Members of Congress are concerned about the revenue impact of this legislation—which according to the Joint Committee on Taxation, begins at $175 million in fiscal year 1978 and increases to $1.9 billion in fiscal year 1981 when the full $500 tax credit is in effect.

But how much more expensive is it to deny millions of young Americans the opportunity for upward mobility that a college education offers? I believe this revenue impact would be a worthwhile and necessary investment in the future of our country—an investment that would be returned in higher earnings, better job opportunities, and consequently, higher Federal tax revenues.

Over the past 10 years, the Senate has passed college tax credit legislation by substantial majorities five separate times. This year there are more than 50 pieces of legislation providing college tax relief already introduced in the House of Representatives. It is an idea whose time has come, and I urge this committee to favorably consider this legislation to provide middle-income taxpayers relief from a financial burden that no other generation has ever experienced before.

Mr. **Simon**. Thank you very much, Senator.

Let me just suggest two modifications in your proposal that have been suggested and get your reaction.

One is that because of the revenue impact on the Federal Government, that we limit it to those who have really been hit the hardest and that is those who have two or more in college at the same time.

I think I misstated the statistics before. It is roughly one out of every seven families that have dependents in college in that situation.

What would be your reaction to that kind of a modification?

Mr. **Roth**. Let me start by saying, generally speaking, I am not a person who insists specifically on one formula. It is the concept and the principle that is important to me. So I do remain in a flexible stance.

In this area, however, I do disagree. I have concern about limiting it to the second child. I think the tax credit ought to be available whether you have one child, two, or three. I remember at the University of Oregon, many of us studied under the GI bill of rights. That was available across the board. You can find article after article in every leading newspaper or magazine saying it was well worth the cost. So I think that would be a mistake, sir.

Mr. **Simon**. The second alternative that has been suggested by Congressman Mikva is that rather than the exemption that you are talking about, the deferral, the disadvantages it has on the immediate impact on revenue, that the long range it has less impact.

Mr. **Roth**. I have a great deal of sympathy for that approach in the long range, but, frankly, it doesn't answer the problem today. What I am concerned about is that young men and women have the opportunity to go to school now, not sometime off in the future. That is the reason I think we should adopt a program that will have a beneficial impact on middle America right now and not delay it indefinitely.

If I may talk about my side of the Congress, it interests me that my colleagues who claim that a college tax credit program would lose too much revenue are the same ones who then go out and vote billions in other areas, whether it is foreign aid or something else.

I am not critical of that. But, sure, to be beneficial this program is going to cost something. We are not only helping the young people but it is my strong feeling that we are helping America itself.

As you probably know, for every additional $100 increase in college tuition costs, it is estimated we lose something like 1 to 3 percent in college attendance. I don't think this country can afford that today. We are up against some of the sharpest competition worldwide, particularly the Japanese and Western Europe who have well-qualified, excellent people.

We are going to have to meet that competition in new, advanced areas of science and other technologies. It seems to me the best way we have of assuring a strong America of the future is to give our young men and women today that chance to go to college.

Mr. **Simon**. Mr. Mineta.

Mr. **Mineta**. Thank you, Mr. Chairman. Thank you, Senator Roth.

The eligibility standards for the basic educational opportunity grants I understand are up to about $18,000 in family income. So would a recipient of a BEOG grant also be eligible for this tax credit as well?

Mr. ROTH. There would have to be some kind of reconciliation, I think, between the two kinds of programs. There might be situations where it would be felt to be desirable. But generally speaking, it is my concept that the present programs would help one group of people whereas the college tax credit would be for those who would normally not be covered by these programs.

I think something like only 4 percent of families with incomes over $12,000 are benefiting from this other program. So I am not really generally talking about piling it up. But there might be cases where that could be justified.

Mr. MINETA. As I understand it from Mr. Corcoran's testimony, the program is really only for full-time students.

Mr. ROTH. Yes. That has been our proposal for two reasons, partly cost and partly the burden of administration. But it is not something that I would necessarily close the door on if it were felt desirable to try to extend it to part-time students.

Mr. MINETA. There are other programs in education, for instance, guaranteed student loans where, again, families with incomes as high as $35,000 would be eligible. It is assumed under your present program that those families will still also be eligible for the tax credit.

Mr. ROTH. Under this legislation, the tax credit is available for all eligible expenses paid by the taxpayer, subject to the credit's limitation. In addition, the amount of the credit is reduced only if a tax-exempt scholarship or a grant reduces the expenses below the amount of the credit. In regard to a loan, it should be pointed out that loans do not reduce the net cost of an education.

Mr. MINETA. Thank you very much.

Mr. SIMON. Thank you for your testimony, Senator. We appreciate it.

Mr. ROTH. I appreciate the opportunity to come over. If I could expedite anything for you sometime in the future, let me know.

Mr. SIMON. Your thanks really ought to go to Congressman Philip Crane over there who has been very patient.

Mr. ROTH. Thanks, Congressman Crane.

Mr. SIMON. Senator Schweiker, we're pleased to have you with us today.

STATEMENT OF HON. RICHARD S. SCHWEIKER, A SENATOR FROM THE STATE OF PENNSYLVANIA

Mr. SCHWEIKER. Mr. Chairman and Congressman Mineta, I want to begin by thanking my neighbor, Philip Crane. We live pretty near each other. As the chairman pointed out, it is a little unusual for the House to yield to the Senate and I appreciate it. I owe Philip Crane for his courtesy in allowing me to testify before he testifies.

I ask permission to put my whole statement in the record.

Mr. SIMON. It will be entered in the record.

Mr. Schweiker. I appreciate the opportunity to come before the House Budget Committee this morning to speak in support of college tuition tax credits and deductions.

As you know, I have introduced in the Senate S. 834 which would provide tax relief for those taxpayers who pay tuition at a public or private school, including elementary, secondary, and postsecondary education.

S. 834 addresses a problem which is facing many in our country today, the effect that rising inflation has had on their real access to the education of their own choosing. In terms of our college population, many of whom are supported by their parents, those from lower- and middle-income families have had their access to higher education greatly limited by rising college costs.

The expense of going to college has increased dramatically in the past 10 years. For example, the overall cost of a private college education rose 118.8 percent between 1964 and 1975. Fees at public universities have also risen substantially, some 98.4 percent for the same period. Obviously, income has not risen at the same rate, so the number of families able to pay out-of-pocket and from savings for educational expenses have decreased from 1964.

This year the average annual cost of a private college will be $4,800. Public universities will cost $2,900. Those hit hardest are from the middle- and lower-income families who do not qualify for the financial aid programs we designed and yet cannot keep up with these great increases in college costs. S. 834 was designed to help these people.

In the past, tax relief for educational expenses included only a tax deduction. My bill offers a taxpayer a choice between a tax credit or a tax deduction. The inclusion of the tax credit allows lower- and middle-income families to take advantage of this benefit. S. 834, the Tuition Tax Relief Act is targeted at middle-income and lower-income families.

Our present programs do not reach many students from lower-income and middle-income families. As of January 1975, only 4 percent of basic educational opportunity grant awards went to students whose families earned over $12,000. Estimates received by Pennsylvania institutions calculating what kinds of aid would be available to lower- and middle-income students if the BEOG program grants were increased from the current maximum of $1,400 to $1,800 were that this increase would not provide any significant relief for most students. Students presently receiving these awards might get a few extra dollars benefit, but the number of students receiving this aid and the broad base of this aid would not be changed very much. I don't know how many families can manage on an income of $12,000 to send two or even one child to college in this day and age. Tuition tax relief seeks to remedy this situation.

Since I have introduced S. 834 I have received a great deal of mail from many individuals and groups. In large part the letters come from frustrated middle-income families who, after years of saving for a college education for their children, find that the money they have saved will not cover current college costs. These families are angry. They feel that as taxpayers, they bear the brunt of rising expenses due to inflation, with no help from a Government with seemingly little regard for their concerns.

Many go through the process of filling out all the financial aid forms from colleges, and the State and Federal Government, only to find out that at $12,000 or $15,000 a year, they make too much money to qualify. Tuition tax relief would not underwrite all the college expenses of the middle- and lower-income groups. We would not want to do that and they would not expect us to.

However, this tax relief would provide partial financial aid, and perhaps enough to put another child in college or open up the range of possibilities of college choices for a student.

It has been estimated that for every $100 increase in college costs, we have lost up to 3 pecent of those enrolled in colleges. As aid programs for the lowest income groups have increased, it is the middle income group who has felt this financial pressure the most.

I think the most significant statistic in this whole range which says why we need a bill like S. 834 and the other bills discussed this morning is that the rate of decline in college attendance by students from families with incomes of $10,000 to $20,000 was four times as great as the rates of decline in college attendance by students from low-income families or higher-income families.

Finally, tuition tax credits and deductions have a number of attractive features about them that other forms of Federal aid do not have.

First, no new Federal programs or bureaucracies would have to be formed for administrative purposes.

Second, tuition tax relief does not place a burden on colleges or universities. A major concern of educators today is the amount of time and money and manpower they have to spend to fulfill Federal paperwork requirements. Many times they find that it costs almost as much to administer a program as they actually receive from the program. Surely this is a serious problem that needs our attention.

In education, tuition tax relief would be a first step in this area, a way that the Federal Government can provide aid without growing or placing any additional paperwork or redtape burden on our educational institutions.

I am grateful for this opportunity to appear in support of college tuition tax relief legislation. I hope that in the not too distant future Congress can act favorably not only on college level relief but also for relief at the elementary and secondary school level as contained in S. 834.

Thank you very much.

[The prepared statement of Senator Schweiker follows:]

PREPARED STATEMENT OF SENATOR RICHARD S. SCHWEIKER

Mr. Chairman, I appreciate the opportunity to come before the House Budget Committee this morning to speak in support of college tuition tax credits and deductions. As you know, I have introduced legislation in the Senate, S. 834, which would provide tax relief for those taxpayers who pay tuition at a public or private school, including elementary, secondary, and postsecondary education. S. 834 addresses a problem which is facing many in our country today—the effect that inflation has had on their real access to the education of their own choosing. In terms of our college population, many of whom are supported by their parents, those from lower- and middle-income families have had their access to higher education greatly limited by rising college expenses.

The expense of going to college has increased dramatically over the last 10 years. The overall cost of a private college education rose 118.8 percent between 1964 and

1976. Fees at public universities have also risen substantially—98.4 percent during the same time period. Obviously, income has not risen at the same rate, so the number of families able to pay (out-of-pocket and savings) for educational expenses has decreased since 1964. Those hit hardest by these increases are middle- and lower-income families who, do not qualify for Federal financial aid, and yet cannot keep up with these great increases in college expense.

S. 834 was designed to reach just these people. In the past, legislation providing tax relief for educational expenses included only a tax deduction. My bill offers the taxpayer a choice between a tax credit or a tax deduction. The inclusion of the tax credit option allows lower- and middle-income families to take advantage of this benefit.

I serve on the Education Subcommittee of the Human Resources Committee and the Labor-HEW Appropriations Subcommittee. This puts me in the unique position of having the opportunity to take part in planning education programs in authorization legislation, on the Education Subcommittee, and then reviewing and funding these programs again when they come before the Labor-HEW Appropriations Subcommittee. I have consistently supported Federal aid to education, in forms of direct student financial assistance through loans and grants, and institutional aid. My sponsorship of legislation providing tax relief for tuition payments for any level of education does not conflict or interfere with my support and enthusiasm for other types of education aid. However, critics of tax credits and deductions for tuition payments claim enactment of this legislation would encourage Congress to abandon its commitment to existing aid programs. I do not believe this would be the case.

Tuition tax relief is targeted at middle- and lower-income groups. Our present direct student aid programs do not reach many students from middle- and lower-income families. As of January 1975, only 4 percent of Basic Educational Opportunity Grant awards went to students whose families earned over $12,000. Estimates received by Pennsylvania institutions calculating what kinds of aid would be available to lower- and middle-income students if Basic Educational Opportunity Grants were increased from the current maximum of $1,400 to $1,800 were that this increase would not provide any significant relief for most students. Students presently receiving awards would find their aid increased; however, the number of students receiving this aid could not be expected to increase very much. I don't know how some families can manage on an income of $12,000 a year, with two children in college. Obviously many cannot. Tuition Tax Relief legislation seeks to remedy this situation.

Since I introduced S. 834, I have received a large volume of mail from many individuals and groups. In large part, the letters express the frustration of middle- and lower-income families who, after years of saving for a college education for their children, find that the money they have saved will not nearly cover current college expenses. These families are angry—they feel that as taxpayers, they bear the brunt of rising expenses due to inflation, with no help from a Government with seemingly little regard for their concerns. Many go through the process of filling out endless financial aid forms from colleges and State and Federal governments, only to find out that at $10,000 or $12,000 or $15,000 they "make too much money" to qualify. Tuition tax relief would not underwrite all of the college expenses of the middle- and lower-income groups. We would not want to do that, and they would not expect us to. However, this tax relief would provide a partial financial aid, perhaps enough to put another child in college or open up the range of possibilities of college choices for a student. It has been estimated that for every $100 increase in college costs, we lose up to 3 percent of those enrolled in college. As aid programs for the lowest income groups have increased, it is the middle-income student who has felt this financial pressure the most. Between 1969 and 1974, the rate of decline in college attendance by students from families with incomes of $10,000 to $20,000 was four times as great as the rates of decline in college attendance by students from lower or higher income families.

Finally, tuition tax credits and deductions have a number of attractive features about them that other forms of Federal aid to education do not. First, no new Federal programs or bureaucracies would have to be formed for administrative purposes. Second, tuition tax relief does not place any burden on colleges and universities. A major concern of educators today is the amount of time and money they have to spend fulfilling Federal paperwork requirements. Many times they have found that it costs almost as much to administer a program, as they actually receive from the program. Surely this is a serious problem, one that we in Congress will increasingly have to turn our attention to. In education, tuition tax relief would be a first step in this area, a way the Federal Government can provide aid without growing or placing any additional burden on educational institutions.

I am grateful for this chance to appear in support of college tuition tax relief legislation. I hope that in the not too distant future Congress can act favorably not only on college level relief but also on relief at the elementary and secondary school level as contained in S. 834. Thank you for this opportunity.

Mr. **Simon**. My understanding is that the provisions of your proposal are similar to Congressman Delaney's here in the House. Is that correct or do you know?

Mr. **Schweiker**. Yes, that is correct.

Mr. **Simon**. Your bill also covers elementary and secondary education?

Mr. **Schweiker**. That is correct.

Mr. **Simon**. Do you have any statistics on what the increment cost would be there?

Mr. **Schweiker**. Mr. Chairman, I do have some estimates, but I would have to make clear that they are estimates because it is unknown who would take advantage of this benefit. Under this bill you have the option of either a $1,000 tax deduction or a $250 credit. The credit is only on 50 percent of the tuition costs which is a little different from some of the other proposals.

Based on the tandem provisions, we estimate the total cost to be somewhere between $1 billion to $2 billion and we further estimate an equal breakdown between those using it for college where you have a smaller population at much higher costs, and those using it for elementary and secondary schools where you have a much broader population but a lot less cost.

So the estimates we have gotten back are somewhere between $500 million to $800 million in each category which would end up as a $1 billion to $2 billion estimate.

I would have to say that even the sources that gave us the figures say they are only estimates.

Mr. **Simon**. Congressman Mikva has a proposal that you may or may not be familiar with which suggests a deferral of up to $1,500 when you have a dependent in college. I am curious about your reaction to that.

Mr. **Schweiker**. Well, again, I support the general concept of financial relief for college costs so I wouldn't fight a bill that attempted to do this. My one reaction is that I think this proposal gets rather complicated. Basically we are talking about adding burdens to our bureaucratic tax system and making it more complicated because of carryover from preceding years. This means another section of the form and another part to consider. I think the negative aspect of this carryover proposal would be the matter of just the bookkeeping carryover and the administration at a later date. On the other hand, if this is the best we can do, I would support it because I think help is needed in the college cost area.

Mr. **Simon**. Another modification that has been suggested is that the families who are really hit the hardest, those who have more than one in school at the same time, particularly in college, ought to be provided assistance and that would limit the cost of the Federal Government expenditure.

Mr. **Schweiker**. You say——

Mr. **Simon**. Another suggestion has been that we take your proposal or the Coughlin or the Roth proposal or the Crane proposal and just limit it to those families where there are two or more in college at the same time.

Mr. SCHWEIKER. I think I would be opposed to that, Mr. Chairman. I think that as a free society we should make the same opportunities available to every member whether they come from a family of one or six or four. I don't think an individual should be penalized just because he happens to be the first or second individual in a family or because his family only has two children as opposed to six other children. I would rather support legislation which would bear the brunt of the cost and make the opportunity available to all.

Mr. SIMON. Mr. Mineta.

Mr. MINETA. Thank you very much, Senator Schweiker, for your testimony and for your work on this bill.

The point that concerns me is the extension of the credit, kindergarten through 12th grade. It seems to me that allowing this to be extended to act as an inducement, or it will act as an inducement, for parents to send children in the kindergarten through 12th grades to nonpublic schools, in many instances parochial schools, and since there are no programs for financial assistance at that level, it seems to me we would be sort of exacerbating the problem by extending the tax credits in kindergarten through 12 years.

Mr. SCHWEIKER. I realize some people feel that way about it and that is why their bills don't cover it. My own reasoning is this: Coming, as I do, from a State that has two large urban areas with many private schools, the majority of which would be parochial schools, I feel differently. Very frankly, if the urban private schools were to shut down the burden thrown on both cities would be such that both school systems would be instantly bankrupt. Both the Pittsburgh and Philadelphia schools are struggling now to meet deficits they can hardly bear. Private schools perform a great service in these areas.

The high proportion of people who go to private schools in both cities is phenomenally high. If the trends continue, with the elementary and secondary cost escalations, we are going to force people to go back and complete their education in the public school system. Presently property taxes have become so high and private school closing would only force property taxes up by increasing the expenditures of the public schools because of an increased student body.

In the next few years we will face an increasing crisis of the parochial and private schools closing and the burden being thrown on the public schools. In cities like Pittsburgh and Philadelphia, this will mean financial disaster. They can't handle the load now.

I think the viability of our public school system depends on the availability of a viable private school system. Yet they are facing the same thing your private colleges are facing.

Mr. MINETA. I am wondering whether or not by extending this to kindergarten through 12th grade, there would be the thought of trying to recapture the tax breaks by increasing tuition at that level?

Mr. SCHWEIKER. I considered that point, Congressman. I think that has some validity. That is one of the reasons we put the 50-

percent limitation on the tax credit so that by having a 50-percent formula the school is a partner in sharing any rise in cost. Schools will not just pass the burden on. I would think if the 50-percent mechanism weren't there you would have a very valid point.

Mr. **Mineta**. Thank you very much, Senator Schweiker.

Mr. **Simon**. Thank you very much, Senator, for coming over here. We appreciate it.

Mr. **Schweiker**. Thank you.

Mr. **Simon**. Next will be the gentleman from Illinois, Mr. Crane. I thank my colleague for standing aside for our two Senators.

STATEMENT OF HON. PHILIP M. CRANE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Crane**. I am happy to have this privilege to be with you today. I think you do have a copy of my testimony and so, for the sake of time, I would like to make a unanimous consent request that it be included in the record.

Mr. **Simon**. It will be included in the record.

Mr. **Crane**. I think in examinining this whole question on one level the one question probably that we ought to ask ourselves is how we arrange our priorities and as at the inception of the Republic, the first responsibility at the other level is to look to the general welfare.

Even before the ratification of the Constitution, the Continental Congress passed the Land Ordinance of 1785 which in the public domain set aside section 16 for the promotion of education and Thomas Jefferson was particularly eloquent in his insistence that a well-informed electorate was essential for the preservation of a free self-governing republic.

So I think the Founding Fathers recognized the importance of education and I think both at the national and at the local level that has been an ongoing tradition in the United States. The great burden of support for education, of course, at the local level has been an increasing and growing problem and caused supplementary funding from both State governments and the National Government on an increasing basis lately.

I think we have also recognized through the years higher education is extremely important to the country. When you get to analyzing some of the figures involved in the loss revenues under the various proposals you have heard that one cannot be entirely accurate about what those loss revenues may be. There has been through the years a correlation in earnings levels with advanced educational years and so it may just be that an immediate investment that constitutes loss revenues now in the longrun may generate even more revenues than we lose at the beginning of such a program as the ones that you have under consideration.

When I first got elected to Congress in 1969, the very first bill introduced was a tax credit proposal. Both of my current proposals are more generous than the ones you have heard today. I can't claim originality for this idea because Margaret Church, one of our former colleagues from up in the northern suburbs, also had introduced a tax credit for postsecondary education when she was in

Congress. I simply was carrying on that tradition. However, I felt it was important even at that time in 1969, and I think it is important now because of the impact of inflation on middle-income families.

As Prof. Milton Freedman has pointed out, if you have only an annual 7-percent rate of inflation, you have to be doubling your income over 10 years to be breaking even. But the fact of the matter is, you don't break even because you are pushed progressively into higher tax brackets.

I think this is the plight of the middle-income families today. A family earning $15,000 a year a decade ago has to be making almost double that today and while that appears to be a higher income as I say, because of the additional tax bite, they are falling farther behind.

What my bills propose to do is to offer on the one hand a $1,000 tax credit for postsecondary education and, on the other, a $3,500 deduction.

Now, it might be argued that both Senator Schweiker and I have more than casual interest in this, that we might even have vested interests because he has a large family and I do too. I have eight children and they will be starting college in 1 more year; we will have four children in college simultaneously for 2 consecutive years if none goes on to graduate school.

Frankly, I have been worrying about the prospect of financing this and I think I may be forced to go back into teaching as a means of trying to secure the free tuition that is one of the perquisites that goes along with the teaching profession.

At any rate, I think this helps to illustrate a part of the problem. You have heard many statistics already and I won't bother to elaborate more fully on them since they are in my prepared remarks, but I do have some figures on the revenue losses here.

With a $1,000 credit system for full-time students, this would constitute an estimated $5.4 billion a year revenue loss. That admittedly is a staggering figure. On the other hand, I think if you look at our total Federal aid to education program, it is in the $5 billion range today so we are not talking about sums of money that we haven't already contemplated in other kinds of programs to address other kinds of problems. If you look at the $3,500 deduction system for full-time students, the revenue loss is $1.2 billion. The reason I think both of them are in order and why you couldn't take either of those figures as being absolutes is because some would obviously prefer the tax credit and others the tax deduction. The reason I think both approaches are important is because under the tax credit approach you are obviously helping people in the lower taxpaying brackets most and to those in higher tax brackets obviously the tax deduction approach is preferable.

For example, in the $15,000 to $20,000 a year income level, the $3,500 deduction actually equals only $828. In the $20,000 to $50,000 a year income level, the deduction is equal to about $1,107. The average tax bracket is 25 percent and thus the tax credit approach is preferable to the average taxpayer because he gets a slightly greater benefit since if you went the deduction route in the average tax bracket, your savings would be $876, where if you take the credit it is a full $1,000.

With that, Mr. Chairman, I will terminate my remarks and to the extent possible try and respond to questions you may have.

[The prepared statement of Congressman Crane follows:]

PREPARED STATEMENT OF HON. PHILIP M. CRANE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, thank you for the opportunity to submit my views on this important legislative proposal for the task force's review. As a former college professor as well as the father of eight, I feel I have a special insight into the problems engendered by the rising costs of higher education.

No more persuasive a case can be made for higher education tax relief than the following statistics released April 17 in Parade Magazine: basing estimated college costs on a 6-percent annual inflation rate and including tuition, room, board, books, and incidentals, the Oakland Financial Group foresees the 4-year cost at a State university as $47,330 and $82,830 at a private school by 1990! Obviously, such costs are prohibitory for the majority of American families.

I am one of the many here in Congress who have introduced legislation designed to place higher education within the financial reach of prospective students, with bills to create a $3,500 tax deduction or a $1,000 tax credit. While benefits would vary according to the individual's tax bracket, it is absolutely essential for the future of higher educational institutions as well as American business and professions that some sort of tax incentive be legislated this session.

Over the past 10 years, costs of tuition and fees have more than doubled. Overall costs for education in the U.S. rose from less than $7 billion in 1959-60, a figure which represents almost 3 percent of GNP. Although figures released Monday by the College Scholarship Service estimate "only" a 4.3-percent rise in the cost of tuition for the 1977-78 academic year, these estimates are based on somewhat misleading facts. First, enrollment is down: the percentage of 18-24-year-old full-time students from families in the $10,000-$15,000 per year income bracket has decreased from 43 percent to 36 percent. Additionally, Federal subsidies have increased: the total amount available for scholarships is up about 11 percent this year, on top of an additional 12 percent last year. Therefore, the number of students reaping the rewards of higher education is down, while the cost to those attending is increasingly cushioned by Federal aid. Obviously, higher tuition is operating as a serious disincentive to prospective students, with Federal aid being viewed as a necessity rather than a welcome helping hand.

Moreover, the College Scholarship Service estimates are premised on expectations of no great rise in the consumer price index. Unquestionably, in light of President Carter's energy proposal, consumer costs will balloon in the coming months. Universities' operating costs will also rise precipitously and will inevitably be passed through in the form of tuition rates. There is no doubt in my mind that future increases in the costs of higher education will equal or supersede past hikes, which registered 7.5 percent in 1976, 8.5 percent in 1975, and 17.3 percent in 1974.

If we do not legislate favorable tax treatment for higher education expenses, we will be endorsing financial discrimination against middle-income America. Moreover, we will be denying thousands of prospective students their right to pursue higher education goals. In an era when "affirmative action" guidelines are taking their toll on broad-based university populations, when quality in education is declining as universities cannot offer attractive salaries to professors yet employment requirements dictate college degrees, both students and educational institutions themselves desperately need the financial assistance these tax breaks offer. With increased enrollment triggered by offsetting the cost of admission, universities' revenues will begin to cover the staggering costs of providing quality educational services.

As my colleague, Dick Schulze, pointed out in his March 3 Extension of Remarks, our tax system recognizes the need to encourage capital investment by business to keep our economy strong. Our tax code must also reflect the realization that educating our young people is an equally sound investment in the future of our country and our economy. Therefore, I urge the task force's favorable consideration of legislation designed to help the American family pay the price for higher education benefits. Thank you.

Mr. SIMON. If I follow your figures correctly, you are talking about a total cost of approximately $5.7 billion on your program.

Mr. Crane. I believe it is $5.4 billion, Mr. Chairman. It is $5.4 billion if all of the college population were to take the credit approach. The other figures assume all of them took the tax deduction approach, and I think what you would get is some deduction.

Mr. Simon. You heard the Mikva proposal or at least heard it described. What is your reaction to that?

Mr. Crane. I am sympathetic with any kind of relief but I tend to agree with Senator Schweiker that it adds complications to an already complicated tax law in this country and I think, beyond that, it does not provide the immediate kind of relief that is called for at the present time.

Mr. Simon. What about the proposal—here again you speak with a conflict of interest, an understandable conflict of interest—what about the proposal that would limit severely the cost to the Federal Government that would apply, say, for example, to the Crane family or any other family, only when you have two or more in college.

Mr. Crane. Well, admittedly from a personal self-serving point of view that would be a most worthwhile idea because I think we will have two in college for approximately 6 years at least, so I would myself be eligible. It is certainly preferable to nothing, but, on the other hand, I do incline to agree with both Senator Roth and some of the other witnesses earlier this morning that it tends to be discriminatory. My own preference would be to guarantee equality of application of this principle to all taxpayers because I think they are all suffering inordinately today.

Mr. Mineta. I have no questions other than to thank Mr. Crane for his presentation.

Mr. Simon. We are going to stand in recess for just a few minutes and we will be back here in approximately 10 minutes.

[After recess.]

Mr. Simon. The hearing will resume. I would like to mention that the president of Rutgers University was scheduled to appear in behalf of the colleges and universities. There has been a death in the family and so his testimony will appear in the record as he will not be able to be here.

[The prepared statement of Mr. Bloustein follows:]

PREPARED STATEMENT OF EDWARD J. BLOUSTEIN, PRESIDENT, RUTGERS UNIVERSITY, THE STATE UNIVERSITY OF NEW JERSEY; ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

I. INTRODUCTION

I am Edward J. Bloustein, the president of Rutgers—the State University of New Jersey, and I wish to express my thanks to the House Budget Committee for affording me this opportunity to appear before you today. I represent the National Association of State Universities and Land-Grant Colleges. The Association's Committee on Financing Postsecondary Education, which I chair, has examined the tax credit proposals, which you are considering, in the broader context of financing higher education, and it is in that context that I wish to address the issue. Let me make it clear, however, that the NASULGC Committee on Financing Postsecondary Education has not yet reached a definitive position regarding the tax credits. I cannot, therefore, offer the Association's views either in support of or in opposition to the proposed higher education tax credit legislation.

II. AMBIVALENCE IN THE HIGHER EDUCATION COMMUNITY

The failure of our association to reach a definitive stance on the tax credit issue is not the result of a lack of interest. Nor is it the result of clear-cut divisions within the education community. It is rather that we are ambivalent about the issue.

There are at least two reasons for our ambivalence. First, we view any new proposal designed to relieve the financial difficulties of our colleges and universities in the context of the present patchwork of support which we now receive. Although we welcome any new source of support, our enthusiasm is tempered by the knowledge that the entire financing system needs a thorough overhaul in order to ensure the long-term viability of higher education.

The second reason for our ambivalence is that the possible benefits to higher education of the tax credit you are considering, while important, are really incidental to the main purpose of the legislation: tax relief for the middle class. This aim may be entirely justifiable as a social policy, but it should not be equated with a systematic program to assist financially troubled colleges and universities.

III. THE PATCHWORK QUILT

For years, it has been assumed without question that the States should act as guardians of higher education, retaining the primary responsibility for the financial health of public colleges and universities. Despite the fact that nearly 45 percent of public support for higher education now comes from the Federal Government, it is taken as axiomatic that this funding should serve only a limited number of special tasks, such as "encouragement of equal opportunity," "support of creative research capacity," and other categorical rather than institutional support programs.

It is my personal judgment that the division of responsibility for higher education just described is fundamentally mistaken. We should recognize that the Federal Government has now become a major participant in the financing of higher education. Its activities are much more than simply supplements to tuition income, State appropriations, and endowment funds for the system of public colleges and universities. We must also recognize that there are good and substantial reasons for large-scale Federal involvement in financing higher education, as well as a number of historical precedents, including the Northwest Ordinance of 1787, and the Morrill Act of 1862.

Further justification for the expanded role of the Federal Government in the financing of higher education can be seen in the nature of the university curriculum, the nature of our student bodies, and the research and extension programs of our institutions. Intellectually and culturally, our research programs of our institutions. Intellectually and culturally, our research programs serve needs which go much beyond the States in which our institutions are located. Studies of outer space, Outer Mongolia, the structure of DNA and the political system of ancient Egypt find support in State funding, but are hardly designed to serve State needs. Much of the public service of State-supported institutions also serves a wider constituency than simply those who reside within a State's borders. And our student population is and should be recruited nationally, to some extent internationally, especially in graduate and professional schools.

The current structure of financing higher education is further complicated by the sporadic and piecemeal character of Federal involvement in higher education and by failure of Federal categorical aid to cover the true costs of research and training programs. We all know that the increase in Federal expenditures for higher education has been phenomenal—from $526 million in 1947-48 to $5.9 billion in 1972-73. Unfortunately, this phenomenal growth has taken place piecemeal and without sufficient attention to the need for a rational and comprehensive scheme for financing higher education. As James A. Perkins recently put the matter, the Federal Government has never really made a decision about its role in higher education: "It has made bits and pieces of decisions about specific and limited issues" (Perkins, "Coordinating Federal, State, and Institutional Decisions," in *Education and the States,* American Council on Education, 1975, p. 189). The result is that Federal higher education policies pursued by dozens of different agencies for dozens of different purposes not only overlap and contradict one another, they also overlap and contradict State funding policies and agencies.

Another compelling reason for the Federal Government to take a more involved and responsible position regarding higher education funding is that Federal tax revenues represent nearly two-thirds of the total governmental tax revenues, and on the whole the Federal tax structure is more elastic and more equitable than State tax systems. As the cost of higher education increases and as its tie to the State—

whether through classroom instruction, research and scholarship, manpower training or extension service—becomes increasingly tenuous, the need to turn to the larger, more equitable and more flexible Federal sources of support becomes more obvious and more justifiable. National institutions, which face national problems, which undertake research and scholarship of national scope, and which train a national manpower pool, rightly should look to national sources of funding.

I want also to note that many higher education institutions, both public and private, are still financialy insecure. Budgetary problems are causing some institutions to cut back their educational offerings and to use endowments for operating capital, and the costs associated with implementing federally mandated programs is adding to this already weighty financial burden of higher education institutions. The recently signed handicapped regulatons, for example, will necessitate our digging deeper into instructional budgets to comply with mandated changes in facilities and programs.

IV. TAX CREDITS

I hope this examination of the broader aspects of higher education financing has provided a context in which to consider the tax credit proposal. Let me state again that if college and university officers are ambivalent, it is because this proposal does not begin to redress the sort of problems I have outlined. Whatever social benefit there may be as a consequence of the tax credits, the system of funding higher education will become no less of a patchwork, and the basic financial insecurity and instability of institutions of higher education will hardly be touched. A tax credit program will assist higher education indirectly, at best.

The major argument in support of an educational tax credit is that it will provide a new source of funding for students from middle-income families. Although the plight of the middle-income student has not been thoroughly documented, there is sufficient data available to justify substantial concern. For example, Prof. Larry Leslie of the University of Arizona has found that there has been a decline of 8.8 percent in the rate of enrollment among students from middle-income families between 1969 and 1974. In addition, an American Council on Education study shows that students from middle-income families pay a higher percentage of the net cost of their education than students from low- and high-income families. After considering income from financial aid programs and from parental contributions, ACE found that middle-income students pay 41 percent of their college costs while low-income students pay 32 percent and higher income students pay 29 percent.

Let me assess the effects of tax credits on colleges and universities. First, the program may increase the size of the pool of qualified applicants. This will depend, however, on whether the program acts as an incentive for young men and women who otherwise would not go to college. We have no reliable data on this important point, and I cannot make a judgment.

It has been argued that tuition would increase to capture the additional dollars arising from tax credits. I disagree. At Rutgers University, and at all institutions of public higher education, we are committed to a policy of low tuition. We believe that the best means of providing access is to maintain affordable tuition levels. Our governing boards and State legislatures would not opt for tuition increases simply because they believe students now have an increased ability to pay; tuitions are raised only when there is a absolute need for increased funds, and such decisions are made with the greatest reluctance.

On the other hand, if the Congress is viewing the higher education tax credit proposal as a social policy alternative to the expansion of the existing student aid programs, I would offer my personal approval for the following reasons:

1. The tax credit program does not require a large bureaucratic structure for its administration as does the existing student aid program.

2. The tax credit program can be easily targeted to specific income groups just as the current student aid program is; however, a tax credit program does not require middle-income students and their parents to document poverty, which they would generally find offensive and humiliating.

3. Tax credits are not subject to the vagaries of appropriations committees; a relatively simple amendment to the Internal Revenue Code would establish the program without the need of annual deliberations. With the other student aid programs, there seems to be an annual struggle between the administration and the Congress, with the students, their parents, and the institutions caught in the middle.

It is on this basis that I can offer my personal support for tax credits. I believe this program for relieving the burden on middle-income families represents good social policy. But I want to add once again that as a university president and as a representative of the National Association of State Universities and Land-Grant Colleges, I would be far more comfortable and speak with greater conviction if the program really promised some substantial benefit to sorely pressed institutions of higher education.

V. CONCLUSION

In summary, I want to restate my case for a new appraisal of Federal policy toward financing higher education. Adding another program such as higher education tax credits to the package of Federal assistance programs may help middle-income students and to some degree may help institutions but it is just another patch in a crazy quilt. The time has come for a new assessment of the roles of the Federal and State governments in higher education and for a reasoned and comprehensive Federal policy toward financing higher education.

Enclosure.

ADDENDUM

The statement referred to in my prepared statement might be misconstrued as suggesting that tax credits could be substituted for existing student aid programs to everyone's advantage. That is not what the statement intends. Rather, the comparison between tax credits and existing student aid programs is a comparison of what the case would be if new but similar kinds of student aid programs were established. Clearly, funding, for example, the existing SEOG program by another few hundred million dollars would in no way increase the bureaucratic structure or demand additional poverty oaths. And, in fact, the major portion of such funds would likely find their way to students from the middle-class families that tax credits would aid. However, were the Federal Government to propose establishing a program along the lines of the BEOG, only focused on aiding middle-class families, the experience with the BEOG program these past several years suggests that it would be more prudent, more certain, and more efficient to use a tax credit approach.

Mr. SIMON. The record will be open an additional 2 weeks following our hearings today for any who wish to submit statements for inclusion in the record.

Mr. Rosen.

STATEMENT OF DAVID ROSEN, LEGISLATIVE DIRECTOR, NATIONAL STUDENT LOBBY

Mr. ROSEN. My name is David Rosen, legislative director of the National Student Lobby. I appreciate the opportunity to testify.

I am struck with the sense of continuity here. I remember talking briefly, during the course of a conference committee on the 1976 education amendments about increased eligibility of raising the ceiling on the $1,800 basic grant program and I think much of the same issues will be addressed in these hearings. I am pleased to talk to you.

We have prepared a statement which we have submitted for the record.

The National Student Lobby opposes any form of tax credit or tax deduction. I would like to state six reasons why we oppose such proposals. The first relates to the notion that tax credits will afford any kind of adequate relief for students or their families in their efforts to attend college. We propose that such initiatives as have been suggested, with the possible exception of Representative Crane's, do not in any way provide adequate relief, particularly when you look at the average college costs, tuition alone at this point. We have an average cost estimated by the College Board at about $3,300. That is brokern down in our testimony for dependent students ranging in 1976-75 from $2,900 up to 1977 figures of $3,300.

For independent, self-supporting students, the costs are much higher. There is an indication here of rising costs of tuition.

Also, we are looking at increased costs of tuitions over a 6- or 7-year period. Again the data is entered in the record and there has been a litany of testimony here today which I won't repeat.

We are basically arguing that a credit of $100, $200, $250 is simply inadequate to meet an average college cost of $3,300. It is even less adequate for the likely higher college costs for those students from higher income families who correlate roughly with higher cost institutions somewhere in the area of $5,000 college costs.

We are simply saying such tax credits is not adequate. For the costs engendered by the program, it makes bad policy. Another thing we are disturbed about in tax credit proposals is that this is aid which goes to the family and not to the student. The National Student Lobby has been on record for the last 7 years proposing increased assets without financial barriers for all income classes.

I don't think we take any exception to the arguments we have heard today about the importance of higher education in this country and access to that system. However, we are advocating programs which directly aid students and there is really nothing in the tax proposals which we see as a guarantee of access toward the costs of college. In some way these tax credit initiatives might be tax credit initiatives for buying lawnmowers. There is no guarantee the credit going to the family would be used for higher education costs.

The third point we would like to make here—let me add another point on the question of aid going to students or families. I think we are seeing also an increasing trend in independent, self-supporting students. As I understand all the proposals before Congress regarding tax credits or deductions, they are really aids to families. The basic grant program applicants have increased in the self-supporting independent category from academic year 1973-74, when only 23 percent of those were independent students up to the current year now of more than 35 percent, and in the division of basic grants we estimate there will be at least another 5-percent jump in that in the coming academic year.

This seems to reflect a trend of increasing independence of students going to school which probably matches with the increasing average age of the students. For example, in the 2-year community colleges, the average age is currently about 28, which does something to the myth we have about the stereotype nature of the age of students going to school and whether they are dependent or independent.

The third point we would like to make is that the tax structure is an inappropriate vehicle for proposing aid to higher education. Basically we are disturbed at the distribution of such tax credit proposals. Both Senators Roth and Schweiker indicated the kind of income distribution which their proposals would result in. The CBO has done an estimate for the Roth proposal in the 94th Congress which showed that in the first year, 56 percent of that credit would go to families with incomes over $20,000 and only 9 percent to families with incomes under $9,000, and at the conclusion of the credit at that time, which was a maximum of $250, that would increase to 78 percent of the money going to families with incomes over $20,000 and less than 6 percent going to students from families with incomes of less than $9,000.

Frankly, despite all the rhetoric I have heard today about the need for education and the importance of education in our society, I have not heard a valid rationale for using the tax structure as a vehicle to finance student financial assistance.

The fourth point we want to make in our opposition to tax proposals is that we feel and fear that they would undermine existing student aid programs. We have a basic grant program which, as I mentioned recently—you certainly served on that subcommittee—enacted higher eligibility ceilings by increasing the maximum award to $1,800. Senator Schweiker is in error when he says no significant new population would be made eligible by that program. Roughly half a million new students would be made eligible by the increased $1,800 maximum grant ranging from family income background of $13,000 to $17,000 roughly.

In that light, I would like to add as a supplement to our statement, Mr. Chairman, two documents which indicate the distribution by income bracket of the $1,800 and the $1,400 basic grant programs, as well as the income characteristic of first time eligible students for the basic grant programs under the new increase.

Mr. SIMON. They will be entered in the record.

[The documents referred to follows:]

Projected distribution by family income first-time eligible students in the basic grant program under $1,800 maximum award

Family income:	*Number of first-time eligible students*
0-$7,320	8,000
$7,321-10,980	57,000
$10,981-14,640	102,000
$14,641-18,300	101,000
$18,301-plus	77,000
Total	345,000

Source: Office of Budget, Planning, and Evaluation, U.S. Office of Education. Based on gross family income, nonadjusted.

DISTRIBUTION OF BASIC GRANT AWARDS UNDER $1,400 AND $1,800 MAXIMUM GRANT CEILING [12]

DISTRIBUTION BY INCOME BRACKET

	0-$7, 320		$7, 321-$10, 980		$10, 980-$14, 640		$14, 641-$18, 300		$18, 301 and over	
	$1, 400	$1, 800	$1, 400	$1, 800	$1, 400	$1, 800	$1, 400	$1, 800	$1, 400	$1, 800
Grantees (thousands)	880 (46.4)	888 (39.6)	520 (27.4)	577 (25.7)	331 (17.4)	433 (19.3)	144 (7.6)	245 (10.9)	19 (1.0)	96.0 (4.2)
Awards (millions)	1,012 (56.2)	1,128 (47.9)	477 (26.5)	624 (26.5)	230 (12.7)	382 (16.2)	72 (4.0)	173 (7.4)	7 (.4)	44.9 (1.9)

DISTRIBUTION BY COST OF COLLEGE

	0-$2, 300		$2, 301-$3, 300		$3, 301-$9, 999	
	$1, 400	$1, 800	$1, 400	$1, 800	$1, 400	$1, 800
Grantees (thousands)	632 (33.3)	735 (32.8)	852 (44.9)	1,018 (45.4)	412 (21.7)	487 (21.7)
Awards	572 (31.8)	699 (29.7)	812 (45.1)	1,048 (44.5)	413 (23.0)	605 (25.7)

DISTRIBUTION COMPARISON OF COST OF COLLEGE WITH INCOME BRACKET

Cost of college	Income bracket									
	0-$7,320		$7,321-$10,980		$10,980-$14,640		$14,641-$18,300		$18,301 and over	
	$1,400	$1,800	$1,400	$1,800	$1,400	$1,800	$1,400	$1,800	$1,400	$1,800
0-$2,300:										
Grantees	287 (15.1)	290 (12.9)	169 (8.9)	181 (8.1)	113 (5.9)	136 (6.0)	53 (2.8)	87 (3.9)	8 (0.4)	39 (1.7)
Awards	308 (17.1)	314 (13.3)	154 (8.5)	182 (7.7)	79 (4.4)	120 (5.1)	26 (1.5)	63 (2.7)	3 (.1)	19 (.8)
$2,301 to $3,300:										
Grantees	408 (21.5)	410 (18.3)	246 (12.9)	278 (12.4)	135 (7.1)	191 (8.5)	55 (2.9)	100 (4.4)	7 (.4)	37 (1.6)
Awards	468 (26.0)	507 (21.5)	222 (12.3)	295 (12.5)	92 (5.1)	160 (6.8)	27 (1.5)	67 (2.9)	2 (.1)	16 (.7)
$3,301 to $9,999:										
Grantees	185 (9.7)	187 (8.3)	105 (5.5)	117 (5.2)	83 (4.3)	106 (4.7)	35 (1.8)	58 (2.6)	3 (.2)	18 (.8)
Awards	235 (13.0)	306 (13.0)	100 (5.6)	146 (6.2)	58 (3.2)	100 (4.2)	17 (.9)	42 (1.8)	1 (.08)	8 (.3)
Total:										
Grantees	800 (46.4)	888 (39.6)	520 (27.4)	577 (25.7)	331 (17.4)	433 (19.3)	144 (7.6)	245 (10.9)	144 (7.6)	96 (4.2)
Awards	1,012 (56.2)	1,128 (47.9)	477 (26.5)	624 (26.5)	230 (12.7)	382 (16.2)	72 (4.0)	173 (7.4)	72 (4.0)	44 (1.9)

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[1] Fully funded. Distribution based on enrollment projections, Consumer Price Index projections and family income distribution assumptions of the Office of Planning, Budget and Evaluation, USOE.

[2] Figures in parentheses equal percentages.

Mr. Rosen. The supplemental grant program, with awards averaging roughly somewhat over $500, goes to an even higher income bracket. That is also shared with lower income students attending higher priced schools. The guaranteed student loan program, as amended, raises the eligibility ceiling for family income subsidies to a family with an adjusted gross income of $25,000 which really relates to a gross income of somewhere around $30,000. Now, the intention there of Congress was clearly to provide eligibility for the guaranteed student loan program for as many as 90 percent of the families in this country.

The fifth point we would like to make in opposition is really pointing out, as I am sure you are already aware, that there are current expenditures on higher education costs that total more than $1 billion. I would really question the efficacy of increasing that loss of revenue at this point without any kind of analysis as to what kind of benefits the current tax expenditures are giving students and their families.

Let me just review those. There are three areas where revenue losses are occurring. The first is in the scholarships and fellowships, which we estimate currently to total $235 million.

The second area is in the family personal exemption for dependents over the age of 19 who are enrolled in school. The $750 deduction; revenue losses there are estimated to be $735 million.

The third area which I was not able to get an estimate of cost and loss in revenues on, and we may want to get at that figure, is the business and professional education deductions. The educational costs incurred in upgrading a person's skills or a worker's skills. We don't have a figure on how much that costs.

The sixth point we would like to make here really I think relates to the concern that seems to be underlying all tax credit propopsals and that is upper-middle-income families are not being helped by current and existing student aid programs. We would like to propose that indeed the guaranteed student loan program is designed to help the vast majority of middle and upper income students and families.

Unfortunately, today I have heard the term middle income thrown around quite a bit and it ranges from $15,000 up to $50,000. I am confused as to what is really meant by that term. Again, I would point out that the 1976 education amendments authorized income eligibility of $25,000 adjusted gross going up to about $30,000 for the guaranteed student loan program.

I would like to point out what that really means for a student. The average loan in the academic year 1975-76 was $1,300. Now, the costs incurred to the Federal Government by administrative allowances, losses due to deaths, disability and default, averaged about 25 to 40 cents on the dollar loan, depending on whose estimates you believe. This means that for that average loan of about $1,300 you are looking at an average subsidy of about $300 to $400 per loan which is clearly pretty close to the kind of subsidy the Roth proposal would propose in terms of tax credit.

When you look at an average loan of $1,300 and a loan as high as $2,500 being allowed by the program, I think we are talking about a much more significant form of aid than provided by the varying tax credit proposals before us today.

Another point which we should raise in relation to the guaranteed student loan program is that loan money is made available immediately and not returned to the families as a kind of a refund or credit after the expenses have already been incurred. So really that program is designed to meet that immediate cash crunch which seems to be the real problem for so-called middle-income families to send their children to school.

Another point that one of your colleagues, Mr. Mineta, raised, which I appreciated in relation to his question regarding the basic grant program's eligibility up to $18,000, and whether or not that would represent a double subsidy under tax credits, as well. It would. We are really looking at a package of student aid programs, grants, loans, work study which would serve virtually 90 percent of the families in this country. Is this a double subsidy in terms of applying a tax credit in addition to, for example, eligibility for student loans?

The other point I should make in relation to the problems and defaults in the administration of guaranteed student loan programs is related again to your work on the subcommittee on the 1976 education amendments and trying to take a hard look at the GSL program and get at the root cases of high default rates and problems in administration.

In that act the Congress put its faith in trying to provide clear and substantial incentives to develop a system of State guaranty loan agencies.

In Mr. Mineta's State of California, it is true that there are only two large banks, Wells Fargo and the Bank of America, which are still making guaranteed student loans.

However, it is also true that the State legislature there is currently in negotiation on creating a guarantee agency in the State. So clearly there is movement in that State.

Your own State of Illinois has a very respectable student loan program. The default rate there is under 4 percent, I believe.

Let me summarize in one sense here. It really does disturb me to hear the rhetoric of the importance of higher education and access for students to higher education in America and how that strengthens our society, our economy, and our ability to compete on an international basis; to have that rhetoric attached to a proposal which would give $250 to families, not students attending institutions, at an average cost of $3,300.

I don't understand how that equates with equal access. I don't understand where that rhetoric is when we are fighting for appropriations for full funding basic education opportunity grants or for the college work-study program which is way underfunded.

We would like to see the money which would be lost in revenues put into reauthorization of student aid programs and existing student aid programs to try to meet the needs which are currently unmet for so-called middle-income or upper-middle-income families and have those programs better serve students and their families.

[Testimony will resume on p. 88.]

[The prepared statement of Mr. Rosen follows:]

PREPARED STATEMENT OF DAVID ROSEN

The National Student Lobby *opposes* tax credits for postsecondary education costs because:

1. Tax credits afford no real relief to students or their families;
2. Tax credits do not directly aid students;
3. The tax structure is an inappropriate vehicle to provide economic relief to students and their families for high college costs;
4. Tax credits for postsecondary education costs undermine the array of student financial aid programs created by Congress: grants, work/study and loans;
5. Currently more than a $1 billion is lost through tax expenditures for postsecondary subsidies; and
6. The Guaranteed Student Loan Program is more appropriate and effective as a financial aid strategy for students from middle income families.

BACKGROUND AND HISTORY

By 1965 there had been filed in Congress nearly 500 educational tax relief measures for higher education expenses. Between 1964 and 1971, Senator Abraham Ribicoff (D-Conn) had introduced five tax bills, each of which successfully passed the Senate, but died on the floor of the House. In 1975, Senator Lloyd Bentsen (D-Tex) introduced a measure that would allow a credit amounting to 20 percent of the amount deposited in an educational savings plan. In 1976 James Buckley (R-NY) introduced a bill which would allow the deduction of the amounts paid for tuition for elementary, secondary, as well as postsecondary education, as long as this amount does not exceed $1,000. The Buckley bill has been accused of hurting the public schools and aiding "white flight," or the movement of white families to private, *de facto* segregationist schools in this country, although the tax credit under the Buckley bill would not be available for attending schools with racial discrimination policies.

Senator Roth (R–Del) has been an outspoken advocate of tax credits for college costs, and has repeatedly introduced a bill which would provide a tax credit to families supporting children through college of $100, rising by $50 increments to a maximum of $250.

The Roth amendment allows an individual a nonrefundable tax credit against the tuition costs paid for the education of one or more members of his/her family. The credit is prorated when there is more than one taxpayer in a family. If the educational expenses of an individual are paid by more than one taxpayer, the credit allowable to each taxpayer will be proportional to their yearly tax bill. So that if there are two taxpayers in one family, the taxpayer with the larger tax bill will receive a greater proportion of this educational tax credit. So too, if there is more than one student in the family attending a postsecondary institution, a full tax credit is paid for each student, which in turn is divided among each taxpayer.

The Roth amendment, as adopted by the Senate last year in its consideration of the 1976 Tax Reform Bill, defines the term "educational expenses" as meaning "tuition and fees required for enrollment or attendance at and 'eligible educational institution.'" Educational expenses, fees, books, and supplies are the costs provided for by this credit, with a stipulation included to exclude any living or family expenses. "Eligible educational institutions" are defined as an accredited college, university, or vocational school.

The amount of educational expenses eligible for the credit for an individual is reduced according to the amount received by the individual through tax-exempt scholarships, grants, or GI bill benefits. The credit cannot be greater than the amount of the tax imposed on the individual.

Students, to gain eligibility for the credit, must have attended school for a period of no less than four months per year as a full-time student. Graduate students, or students enrolled in a noncredit or part-time curriculum are not eligible for the Roth tax credit. No credit is allowable for educational expenses incurred by the spouse of the taxpayer unless: (1) the taxpayer claims his spouse as a tax exemption; and (2) the taxpayer files a joint return with his spouse. Business or profession related educational expenses can only be deducted when not applied to a tax credit.

COSTS OF THE ROTH TAX CREDIT PROPOSAL

The Congressional Budget Office has estimated the cost of the Roth tax proposal. The results of that estimate are below; CBO notes that once the maximum credit levels costs, tax expenditures would closely follow enrollment fluctuations.

TABLE 13.—ESTIMATED TAX EXPENDITURES UNDER TUITION TAX CREDIT PROPOSAL,[1] FISCAL YEARS 1978–83

Fiscal year	1978	1979	1980	1981	1982	1983
Maximum tuition credit		$100	$150	$200	$250	$250
Tax expenditure (millions)		543	805	1,082	1,326	1,318

[1] Assuming an effective date of Jan. 1, 1978.

Source: CBO estimates.

The Roth tax credit proposal would ultimately cost almost $1.5 billion.

CONGRESSIONAL OPPOSITION

Senator Edmund Muskie (D–Me.), chairman of the Senate Budget Committee, in his stand against the Roth tax credit amendment outlines seven points questioning the propriety of the Roth amendment.[1]

Senator Muskie's arguments highlight the problem with the tax credit in the financing of a higher education. Either the costs are too large (with the resultant accusation of "budget busting"), or the credit itself is so small as to provide no real relief. Therefore:

(*a*) The middle income family, who needs this aid the most, must compete with income groups who need this aid the least, and

(*b*) Restrictions placed on this amendment to filter out income groups that rightly should be labelled ineligible is left wanting.

(1) The credit, it is assumed, will result in increased tuition costs. With an increase in tuition, any possibility of economic relief will be counterbalanced by cost increases.

(2) Many students eligible for the tax credit attend land grant colleges which have very low tuitions due to their direct subsidization status. Those persons would receive full benefits from the credit, even with heavily subsidized tuition costs.

(3) Muskie contends that since the credit is but a small part of the total full time private college cost, or public university cost for that matter, it will provide little relief for middle income families.

(4) With the credit being so broadly based, it will provide relief to economic classes who need it least. The very wealthy, as well as low income groups will receive these benefits even though the latter receive grants and scholarships, the former possess the resources to fund their children's education.

(5) With the low level of benefits afforded by the Roth amendment, there will be future pressure to raise the revenue loss necessitated by the tax credit.

(6) The effect of or the need for a tuition tax credit has not been closely analyzed. The Finance Committee or any other body did not hear testimony nor engage in researching the tax credit as the proper mode in relieving the costs of financing an education.

(7) To avoid an impact on the fiscal year 1977 budget, this credit is to go into effect July 1, 1977; a year hence. This credit could be fully implemented before that time to begin the dispersal of funds sooner to those that could genuinely benefit.

WHY NSL OPPOSES TAX CREDITS FOR POSTSECONDARY EDUCATION

1. *Tax credits afford no real relief to students or their families*

Tax credit proposals are ill-conceived and inadequate attempts to provide relief from burgeoning postsecondary education expenses for middle income families. The inflation rate last year was 9.1 percent; the College Board estimates that college *tuition alone* will rise 4 percent in Academic Year 1977–78, while earlier estimates put the increase at more than 7 percent. Increases in college tuition over the last 7 years have been staggering:

Increases in college tuitions by type of school—source: College board academic years 1970–71 to 1976–77

	Percent
Public 2-year	131.6
Private 2-year	58.4
Public 4-year	57.2
Private 4-year	63.2

Increases in tuition as measured by the College Board are comparable to increases in the Consumer Price Index, as reported by the Economic Report of the

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[1] Congressional Record, Aug. 5, 1976. S13567.

President, January, 1976. This report showed an increase in the CPI from 116.7 in 1970 to 161.2 in 1975. With 6 percent increases for 1976 and projected 6 percent for 1977, the CPI will rise to about 185 in 1977, nearly a 65 percent increase over the figure for 1970.

Average college costs, aggregated for all types of institutions and weighted by enrollments in those types of institutions show the following:

1975–76:	
Dependent student	$2, 921
Single, self-supporting	3, 339
1976–77:	
Dependent student	3, 155
Single, self-supporting	3, 706
1977–78:	
Dependent student	3, 281
Single, self-supporting	3, 873

Source: College Board.

With a projected average college cost (in tuition alone) of nearly $3,300, it is clear that a tax credit of $100 or $200 is not going to make the difference in any family's ability to send their children to college. This is particularly true for higher income families, who would be eligible for the full credit (because their subsidy through other, established student aid programs would be minimal). Such upper income groups can afford to send their children to virtually any school of their choice, and not have that decision affected by a $100 or $200 tax credit.

2. Tax credits do not directly aid students

It is NSL's position that student financial aid should go directly to students, without an intermediary delegating authority on how this aid should be spent. Tax credit proposals would place a token amount of money in the hands of parents, and not students, unlike the considerable precedent established by Congress in the Basic Grant program, the campus-based aid programs, the State Student Incentive Grant Program and the Guaranteed Student Loan Program.

With the percentage of students declaring themselves independent increasing at a steady rate (for basic grant applicants, the percentages of students declaring independent status has risen sharply over the years: 1973–74, 13 percent; 1974–75, 20 percent; 1975–76, 30 percent; 1976–77, 35.7 percent), tax credit proposals for families are shown to be increasingly inappropriate.

3. The tax structure is an inappropriate vehicle to provide economic relief to students and their families for high college costs

Authorizing student financial assistance through the tax structure is inappropriate and inequitable. Tax credit proposals seem to be based on political considerations, rather than on a concern for equitable and effective use of student financial assistance money. Most tax credit proposals provide that only those families ineligible for other student financial assistance would be eligible for a full tax credit. Such provisions overwhelmingly shift expenditures into upper income groups.

The Congressional Budget Office reported that under the proposed Roth tax credit, when first implemented, 56 percent of expenditures would go to families with incomes over $20,000. Only 11 percent would go to families with incomes below $9,000. After the Roth tax credit would take full effect (at $250), this gap widens even further. 78 percent of expenditures would go to families with incomes over $20,000 with a mere 6 percent to families with incomes of less than $9,000. Below is the distribution of expenditures by family income group according to the Roth tax credit proposal, assuming an effective date of fiscal year 1978.

PROJECTED DISTRIBUTION OF TAX EXPENDITURES UNDER TUITION TAX CREDIT PROPOSAL BY INCOME, FISCAL YEARS 1979–83

[Dollar amounts in millions]

Adjusted gross income	1979		1980		1981		1982		1983	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
0 to $9,000	$60	11	$67	8	$75	7	$78	6	$67	5
$9,000 to $15,000	90	17	106	14	126	12	110	8	96	7
$15,000 to $20,000	90	17	143	16	150	14	169	13	123	9
$20,000 and up	303	56	500	62	731	68	970	73	1, 033	78
All incomes	543	100	805	100	1, 082	100	1, 326	100	1, 318	100

Source: CBO estimate.

4. Tax credits for postsecondary education costs undermine the array of student financial aid programs created by Congress

Tax credits are not an effective means of insuring access to postsecondary education for any sector of the population. More importantly, the high cost of tax credits ($1.5–4 billion) will undermine existing and more effective student financial aid programs.

The Education Amendments of 1976 authorize an increase in the maximum allowable award from $1,400 to $1,800. This provision will result in bringing nearly 500,000 new students into the program from family income backgrounds ranging between $13,000 and $17,000. Additionally, the Supplemental Grant program provides average awards of $500 to students from middle and upper-middle income groups. The new ceiling on eligibility for interest subsidies of the Guaranteed Student Loan program (see 6 below) provides aid to families with incomes as high as $30,000.

5. Currently more than $1 billion is lost through tax expenditures for postsecondary subsidies

Both the Congressional Budget Office and the Council on National Priorities and Resources report that nearly $1 billion is currently lost through two tax expenditures:

(1) $235 million in lost revenue from the exemption of scholarships and fellowships from taxation; and

(2) $735 million in lost revenue from the parental personal exemption for students aged 19 and over ($750 personal exemption for each student).

Given the other arguments against tax credits and deductions for postsecondary education costs, it seems more appropriate for Congress to reconsider the wisdom of these two deduction provisions in the current tax law, rather than consider additional tax credit burdens targeted on postsecondary education costs.

6. The Guaranteed Student Loan Program is more appropriate and effective as a financial aid strategy for students from middle and upper-middle income families

The 1976 Education Amendments raised the family income eligibility ceiling for interest subsidies (adjusted gross income) to $25,000, that is over $30,000 gross income for a family of four. The intent of Congress in authorizing this increase in the eligibility ceiling was to *include as much as 90 percent of the families in the nation*, particularly the middle and upper-middle income families. The adjustment was also intended to bring the program more in line with inflationary increases in the cost of living and in rising college costs.

A Guaranteed Student Loan costs the federal government in (1) interest subsidies while a student is in school, (2) losses due to default, death and disability, and (3) administration, at a rate of 25–40 cents per dollar loaned (based on several estimates). Thus, a $1,300 loan (the average in Academic Year 1975–76) was in effect a subsidy of about $300–$400 to student.

The subsidy proposed under most tax credit bills has been between $100 and $375. If both the tax credit and GSL were adopted, there would be a double subsidy. A Guaranteed Student Loan is more efficient and effective, because it allows a person to get up to $2,500 in a loan, rather than simply $100–$375 which would go toward the cash crunch of the current year.

STUDENTS AND TAXES—CONCLUSION

NSL realizes the need to provide relief to middle income students, so that no person be denied access to an education for financial reasons. Caught in a double bind of belonging to families who are both ineligible for may grant and scholarship programs, and often cannot afford to fund a postsecondary education without some type of aid, the middle income student faces the rising costs of education with little effective assistance available.

However, NSL is opposed to any further form of tax credit for costs of college. We urge this Task Force to reaffirm Congress' longstanding commitment to student financial aid through a combination of grant, work/study and loan programs as enacted by the Higher Education Act and amended by the 1976 Education Amendments. The inequities in the delivery of student financial aid should be amended through a legislative strategy focusing on programs, rather than token and ineffective measures proposed through the tax system. The National Student Lobby will work closely with Congress over the coming years to improve the delivery and design of student financial aid programs. The tax structure is not the way to improve student financial aid.

Mr. **Simon**. Thank you very much.

You toss out a figure of the percentage of students who are self-supporting that I have not heard before. I wonder if you could give us those figures again and where you got those statistics?

Mr. **Rosen**. The source of the data is from the Division of Basic Grants in the Office of Education. The items are contained in our testimony. But let me run down for you year by year.

In 1973-74, there were 13 percent of the basic grant applicants who declared themselves independent and self-supporting. In 1974-75 that figure was 20 percent. In 1975-76 the figure was 30 percent. This academic year it is 35.7 percent.

Mr. **Simon**. The point you make about the adult student is an extremely important one and it has obviously not been touched on in the testimony here this morning. Let's just say these programs generally cost, for a rough estimate purpose, $2 billion. If you were to be given $2 billion to help higher education in the United States, how would you effectively use that money?

Mr. **Rosen**. By supporting three programs that currently exist, the basic grant program, the supplemental grant program, and the college work-study program. None of those programs have any limitations on aid or dependent-independent status and they provide substantial aid. The average basic grant for a program cost this year of $1.7 billion is $900, which is a much more substantial form again of immediate cash up front to students than a $250 credit.

I would like to see the eligibility for the basic and supplemental grant programs expanded to meet the concerns of Representatives like David Obey, for example, and perhaps Mr. Crane as well as Senator Schweiker and Senator Roth. Those would be the areas where we are really saying that clearly there is a need to guarantee through the Federal Government an access and a right to a higher education of choice in this country and of quality.

But that really is going to be a substantial commitment. A $250 credit will not provide that. We would urge that in guaranteeing such financial access, you consider strategies of grant assistance and work-study assistance where students, whether they be adult or independent or dependent, have the opportunity to work to help support their way through school in such a way that is more related to educational purposes so you have a better fit between education and work purposes.

Currently, the work-study program is remiss in that area. We are employing students to be hashslingers at minimum and often subminimum wages.

Mr. **Simon**. You have commented on Senator Schweiker's and Senator Roth's testimony and some of my colleagues in the House. You have not commented on the Mikva tax deferment idea. Do you have a reaction to that?

Mr. **Rosen**. The first I heard of that proposal was yesterday in talking with Colleen and today. I have not had an opportunity to examine the proposal. My initial inclination would be to oppose any form of aid, whether it be a deduction or credit through the tax system.

We feel that can only result in token aid. Currently expenditures are over $100 billion. It doesn't seem to make sense to increase that loss of revenue.

Mr. **Simon**. I thank you very much for your testimony. We appreciate it a great deal. We will be back in touch with you with some more reactions to some other modifications.

Mr. **Rosen**. Thank you.

Mr. **Simon**. Lawrence Zaglaniczny.

STATEMENT OF LAWRENCE ZAGLANICZNY, NATIONAL DIRECTOR, COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

Mr. **Zaglaniczny**. I am Lawrence Zaglaniczny, national director of the Coalition of Independent College and University Students, also known as COPUS. Our organization is a nationwide organization representing students attending independent colleges and universities.

I would like permission to have my statement placed in the record since it is fairly lengthy and then have the opportunity to excerpt a few things.

Mr. **Simon**. All right. If you could do that. Unfortunately, I have just received a note that I am expected in the Rules Committee right now. If you can summarize very briefly.

Mr. **Zaglaniczny**. In summary, there are basic arguments we have against the tuition tax credit. We understand and appreciate the motivation of the sponsors of this legislation. However, we think their approach is inappropriate. We oppose tuition tax credits because such proposals will upset the balance between independent and public higher education.

A tuition tax credit is unfair to whole categories of individuals by income level and need. It is not sufficient. It is too broadly based, with inadequate relief for those in the independent sector. It may lead to increased tuition levels resulting in less access to higher education.

In our statement we have prepared a table which breaks down tuition by $500 ranges and number and control of institutions in each dollar range. From that table you can observe the basic thrust of our objections. Rather than read the number through, you can see that the great majority of institutions that have tuition under $500 are public institutions.

A tuition tax credit, in effect, is establishing an indirect, Federal free tuition policy for eligible taxpayers.

An additional 19 percent of the schools in our survey charged between $501 and $1,000 that year. In other words, a $500 tax credit for tuition would potentially offer free tuition or one-half tuition for eligible taxpayers at 55 percent of American postsecondary institutions.

We think that the most effective and appropriate vehicle for providing aid and relief to students and their families must be the present system of Federal aid programs. Certainly, these programs can be better designed and more adequately funded to achieve the objectives that the sponsors of tuition tax legislation hope to attain.

We believe the most effective route is to provide student financial aid under a reformed Federal student financial aid package.

Mr. Simon, you will remember that you signed a letter along with Mr. Thompson, Mrs. Chisholm, Mr. Blouin, Mr. Cornell, and Mr. Erlenborn in supplemental views in the committee report on last year's higher education amendments.

We think this approach is absolutely right. You were right on target when you said:

> There are a number of crucial problems in Federal support for higher education that still need to be addressed. Central among these is student aid where we have a collection of programs that have grown by accretion rather than following any carefully conceived plan. A further reexamination of student aid is needed to create a consistent and integrated Federal strategy to attain equal educational opportunity. Such a strategy would provide access to not just a postsecondary education but to the postsecondary education that students' talents and interests lead them to choose.

We think this is the proper approach. Take the lost revenues that would be substantial, $2 billion, and put them into a reformed student aid package.

Another reason for our opposition. Why should a millionaire sending their child to a low-tuition institution get the same credit as a worker whose child attends an expensive independent institution? The tuition credit is too broad and it is unfair.

In our sector, some have argued that a tuition credit will lead to a rise in tuition. In the independent sector we don't think that is true. However, we think State legislators and Governors and local agencies will feel they have an opportunity to raise their public institutions tuition because parents would have a credit. We think this will cut down on access. Thank you.

[Testimony resumes on p. 106.]

[The prepared statement of Mr. Zaglaniczny follows:]

PREPARED STATEMENT OF THE COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

Mr. Chairman and Members of the Task Force. We thank you for the opportunity to testify and submit this statement of our views on the utilization of the tax system for relief of the high cost of college tuition and related expenses.

I am Lawrence Zaglaniczny, National Director of the Coalition of Independent College and University Students, also known as COPUS. The Coalition is a nationwide organization representing students who attend independent colleges and universities. Our primary concern is working for an adequate and balanced system of Federal student financial assistance so that students may attend the higher educational institution that best suits their needs, talents and aspirations. We seek Federal student assistance programs that will allow needy students to select a college based on their ability to achieve and not based on their ability to pay. Consequently, we welcome these hearings and an opportunity to comment on the various proposals under consideration to institute a system of tax relief for parents and students.

Given our organization's support for student aid, it may seem inconsistent or somehow contradictory to oppose tuition tax credits. We are appreciative of those Members of both houses who have introduced or cosponsored tuition tax credit legislation. Certainly, the motivations and spirit of these efforts are in the right direction, that of increased access to higher education and relief for the parents of college students. Yet, in all good conscience we cannot support these proposals.

Tuition tax credits will not provide relief for those most in need, nor will they provide adequate amounts of such relief. Most importantly, tuition tax credits will weaken the independent sector of higher education in its friendly competition with the public sector for the limited number of students.

There are several tuition tax credit Bills before the Congress, but the most popular appears to be Senator Roth's Bill, S. 311, or a variation of it. As you know, S. 311 provides for a tuition tax credit of $500, at a cost of 2 billion dollars in FY 1981. The Roth Bill would cover miscellaneous fees, books, supplies and equipment costs as well as tuition.

For independent higher education the tuition tax credit is a Trojan Horse. While it may bring some short-term tax relief, it is a long-term public policy mistake. Tuition tax credits will upset the already tenuous balance between public and independent higher education. We oppose tuition tax credits for the following reasons:

1. We have prepared the following table to underline some facts basic to our argument. This table lists the undergraduate tuition and fees charged in academic year 1975-76. These figures are broken down in $500 tuition and fee ranges, by the number and control of institutions in each dollar range.

Key = (# of public institutions/# of independent institutions)
total of both figures above

$0-500	$501-1000	$1001-1500	$1501-2000	$2001-2500
1031/16	403/124	12/329	1/331	0/332
1029	527	341	322	332
$2501-3000	$3001-3500	$3501-4000	$4001-5000	Total
0/155	0/92	0/30	0/5	1429/1404
155	92	30	5	2833

From the table, one can observe that in academic year 1975-76 1029 colleges and universities charged less than $500/year in undergraduate tuition and required fees. This figure is 36 percent of our comprehensive sample of 2833 institutions. In effect, given one's economic status and tax bill, a tuition tax credit of the type proposed in S. 311 would indirectly establish a Federal "free tuition" policy for eligible taxpayers. Another 527 institutions, or an additional 19 percent of schools, charged between $501 and $1,000 that year. In other words, a $500 tax credit for tuition would potentially offer "free tuition" or one-half tuition for eligible taxpayers at 55 percent of American postsecondary institutions. This is a bad public policy in our opinion. The Congress should be aware of this fact and intentionally move to such a policy, but not accomplish a "free tuition" policy by accident.

Our concern for independent colleges and universities is brought into perspective when one considers that of the 1029 institutions with charges of $500 or less, 1013 are publicly controlled. Of the 527 in the $501 to $1,000 range 403 are publicly controlled. In these ranges 98 percent and 76 percent respectively are publicly controlled colleges. We believe these figures indicate a tuition tax credit, such as the one proposed in S. 311, will give an unfair economic and competitive advantage to the public sector to the detriment of independent higher education. Tax credits while ostensibly attempting to assist the independent sector do just the opposite in terms of competition for students on a fair economic basis.

Attached to this testimony in Table II are projections from the National Center for Education Statistics indicating trends to 1985-86 in college enrollment. While the public sector will grow by 25 percent in 1985-86 over actual Fall 1975 enrollments, the independent sector will decline by 3 percent We believe enactment of a tuition tax credit will exacerbate these trends to the harm of our system of independent higher education. While a tax credit may not substantially change the tuition gap between public and private institutions, the tuition ratio would change. For example, if a public college's tuition was $1,000 and a private one was $2,000, then the tuition gap is $1,000. The tuition ratio is 1 to 2. In other words, when shopping around for a college one would need $2 for every $1 to pay for tuition at the higher priced college. If one was eligible for the full $500 credit, then, in effect, tuition would be $500 for the public college tuition and $1,500 for the private institution. The gap between the two remains at $1,000. However, one would need $3 to pay for a private college's tuition for every $1 to pay the public college's tuition. The tuition ratio is increased because of the credit to 1 to 3.

Our belief and opposition to credits is solidified with additional NCES statistics that project tuition and required fees rising in the public sector from a 1975-75 average of $513 to $612 in 1985-86; while in the independent sector showing a 1975-76 average of $2,333 rising to $2,840 in 1985-86. This trend indicates a rise in the average of $99 for publics and $507 for independents in this ten year period.

An April 15th filing deadline for tax returns coincides with the time students make their college choice determinations. We fear too many individuals will compare tuitions with an eye to what tax breaks are available, including a possible tuition tax credit, and base this important decision solely on economic grounds rather than make comparisons on educational considerations. The potential harm to independent higher education and

and reduction in access to it because of a tuition tax credit is the main objection the Coalition has to such proposals.

2. The tuition credit will not fairly assist parents whose children attend independent colleges. As Secretary Califano recently wrote, "only 30 percent of the benefits would go to families sending their children to private colleges, although they have almost 60 percent of the finanical need of all families likely to benefit from the credit."

3. We believe the most effective and appropriate means for student aid is utilization of the present system of Federal aid programs. Certainly, these programs can be better designed and more adequately funded to achieve the objectives that the sponsors of tuition tax legislation hope to attain.

The FY 1977 total for all Federal student aid programs amounts to 2.9 billion dollars. In FY 1978, 1.1 billion dollars would not be collected by the Government through a tuition tax credit. We believe it would be wiser to collect these revenues and increase the appropriation levels for Federal student assistance. The lost revenues of 2 billion dollars in fiscal 1981 would almost double the FY77 student aid appropriation. These large amounts of money should be collected and applied to present or reformed student aid programs rather than lost through an ineffective credit.

4. The credit proposal is too broadly based. Why should a millionaire sending his or her child to a low tuition institution get the same credit as a worker whose child attends an expensive independent college? A tuition tax credit would distribute assistance in an unfair and overly broad manner and not target in efficiently on the middle class as the proponents believe. This is another reason for the Coalition's disapproval of

the idea.

5. Secretary Califano again in his letter to Senator Kennedy points out the credit would be unfair to various income groups. The Secretary asserts that 60 percent of the credit would go to families with incomes of over $18,000. Thus, the credit does not fairly or efficiently target aid to those most in need or the middle class.

6. Some in arguing against the credit believe it would encourage tuition to rise proportionately to the amount of the credit. Coming from, and familiar with, independent higher education the Coalition's membership doubts our sector would respond in such a fashion. Independent higher education already costs an average of $2,333 for tuition and fees. The cost of room, board, books, supplies and incidentals easily can double that amount. Total costs for a number of colleges already approach $7,000 per year. Because of market conditions independents cannot raise costs further, even with a credit, since they would actually or psychologically price themselves out of business.

On the other hand, we fear local and state governments and legislatures that are very pressed for funds would raise their public college tuitions as a result of the credit. It is a tempting rationale in order to balance local and state budgets. Such increases in public college costs would harm access to higher education. The Coalition is concerned that students' very ability to obtain a college education would be reduced if public college tuition were to be increased as a result of the tax credit. Given the recent history in the public sector we believe this is a real possibility and threat.

7. Since the tax credit would not be available to all taxpayers, and, if tuition charges were to rise in anticipation of the credit, then students and their parents would have to somehow pay for the increase even though they are ineligible for a credit. Therefore, a tuition rise could be met by some individuals eligible for a tax credit and not by others. However, any rise in tuition and expenses would offset the benefits of a tuition tax credit.

8. In the 94th Congress, the Roth amendment to the Smith College Bill would have provided a tax credit of $250 at its maximum. In the 95th Congress S. 311 would eventually provide a credit of $500. If a tuition tax credit was implemented one can be certain that there would be enormous pressures to increase the maximum. As a student lobbyist, I know I would be working for more than $500 even though it is a bad financial aid program. As members of the House Budget Committee, you are aware of the implications to the Treasury of the lost revenue that a credit poses and one can guess what the benefit would cost if increased beyond $500.

In summary, the Coalition of Independent College and University Students strongly opposes tuition tax credits. Our membership understands this type of legislation ostensibly is designed to relieve the burden of high tuitions we and our parents pay. However, as responsible members of the independent higher education community we must be in opposition to a tax credit. Such a proposal will upset the balance between public and independent higher education. It is unfair to certain categories of individuals by income level and need. It is not efficient in targeting aid to the middle class and others. It is too broadly based. It is inadequate relief for those in the independent sector. It may lead to increased tuition levels resulting in a reduction of access to higher education programs.

Student aid programs should be reformed and more adequately funded to attain the aims of the sponsors of tuition tax credit legislation. This would be a wiser public policy direction, fostering access to postsecondary education, bringing relief to the middle class and others of need and would strengthen, not weaken, our fine system of independent higher education, indeed all of postsecondary education.

Table I This table lists the undergraduate tuition and required fees charged in academic year 1975-76. These figures are broken down by State, in $500 tuition and fee ranges, by the number and control of insitutions in each dollar range.[1]

STATE	0-500	501-1000	1001-1500	1501-2000	2001-2500	2501-3000	3001-3500	3501-4000	4001-5000	State Totals
AL	27/2 29	7/2 9	0/14 14	0/3 3	0/0 0	0/1 1				34/22 56
AK	7/0 7	0/0 0	0/0 0	0/1 1	0/1 1					7/2 9
AZ	16/0 16	0/1 1	1/2 3	0/1 1						17/4 21
AR	16/2 18	0/4 4	0/5 5	0/1 1						16/12 28
CA	118/1 119	11/5 16	0/19 19	0/15 15	0/25 25	0/11 11	0/10 10	0/2 2		129/88 217
CO	16/0 16	11/0 11	0/3 3	0/1 1	0/1 1	0/2 2	0/2 2			27/9 36
CT	17/1 18	4/1 5	0/1 1	0/3 3	0/8 8	0/4 4	0/3 3		0/1 1	21/22 43
DE	5/0 5	1/0 1	0/0 0	0/3 3	0/1 1					6/4 10
DC	3/0 3	0/2 2	0/2 2	0/3 3	0/1 1	0/5 5				3/13 16
FL	28/0 28	9/4 13	0/11 11	0/10 10	0/7 7	0/2 2	0/1 1			37/35 72
GA	28/0 28	7/5 12	0/8 8	0/9 9	0/5 5	0/2 2				35/29 64
HI	8/0 8	0/0 0	0/2 2	0/1 1						8/3 11
ID	6/0 6	0/1 1	0/0 0	0/1 1	0/1 1					6/3 9

Key = (# of public colleges/# of private colleges)
total of both figures above

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STATE	0-500	501-1000	1001-1500	1501-2000	2001-2500	2501-3000	3001-3500	3501-4000	4001-5000	State Totals
NE	11/0 11	6/2 8	0/2 2	0/3 3	0/6 6					17/13 30
NV	3/0 3	2/0 2	0/1 1							5/1 6
NH	7/0 7	3/0 3	0/1 1	0/5 5	0/2 2	0/4 4	0/0 0	0/1 1	0/1 1	10/14 24
NJ	16/1 17	13/3 16	0/1 1	0/9 9	0/8 8	0/5 5	0/2 2	0/1 1		29/30 59
NM	13/0 13	0/1 1	1/2 3							14/3 17
NY	20/0 20	60/10 70	1/41 42	0/31 31	0/42 42	0/22 22	0/21 21	0/8 8	0/1 1	81/176 257
NC	64/1 65	8/2 10	0/15 15	0/16 16	0/5 5	0/1 1	0/1 1			72/41 113
ND	8/0 8	3/2 5	0/1 1	0/1 1						11/4 15
OH	9/1 10	49/4 53	0/10 10	0/16 16	0/11 11	0/12 12	0/4 4	0/1 1		58/59 117
OK	28/0 28	0/5 5	0/10 10							28/15 43
OR	13/0 13	8/1 9	0/5 5	0/5 5	0/3 3	0/3 3	0/0 0	0/1 1		21/18 39
PA	10/1 11	45/1 46	7/9 16	0/19 19	0/29 29	0/22 22	0/9 9	0/5 5		62/95 157
RI	1/0 1	2/0 2	0/0 0	0/3 3	0/5 5	0/0 0	0/1 1	0/1 1		3/10 13
SC	19/0 19	12/1 13	0/11 11	0/5 5	0/5 5	0/1 1				31/23 54

Table II: Trends in Education, 1965-66 to 1985-86[1]

Higher Education enrollment trends

	Fall 1965	Fall 1975	%change 65-75	Fall 1985 projected	%change 75-85
Total	5,921	11,185	89	13,360	19
Public	3,970	8,835	123	11,070	25
Independent	1,951	2,350	20	2,290	-3
	thousands			thousands	

Estimated average charges per full time undergraduate degree-credit student:

	Current unadjusted dollars		Constant 1975-76 dollars
Tuition and required fees		dollars	
	1965-66	1975-76	1985-86
Public	257	513	612
Independent	1,154	2,333	2,840

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[1] Source National Center for Education Statistics, NCES 77-403

94th Congress } HOUSE OF REPRESENTATIVES { Report
2d Session } { No. 94–1086

HIGHER EDUCATION AMENDMENTS OF 1976

May 4, 1976.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Perkins, from the Committee on Education and Labor, submitted the following

REPORT

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 12851]

The Committee on Education and Labor, to whom was referred the bill (H.R. 12851) to extend and amend the Higher Education Act of 1965, as amended, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment strikes out everything after the enacting clause and inserts in lieu thereof the matter printed in italic type in the reported bill.

Hearings and Committee Action

The Higher Education Act was last amended in major part, by Public Law 92–318, which became law on June 23, 1972. The Special Subcommittee on Education (as it was then called) under the Chairmanship of Mr. O'Hara, began its preparation for the extension and revision of that Act in October, 1973 with a series of hearings and discussions of the operation of existing student programs which extended through July of 1974. Thirty-one days of hearings and seminars directly aimed at examining the workings of Titles IV (student financial assistance) and IX (graduate programs), were interspersed among nine days of review of three annual BEOG family contribution schedules, and five days of examinations of the Guaranteed Loan Program. In the 94th Congress, the Subcommittee on Postsecondary Education, as it had been renamed, still chaired by Mr. O'Hara, began hearings on legislative proposals. In February and March of 1975, there were 12 days of hearings on H.R. 3471 and related student financial assistance bills. Beginning in July, September and October, 1975, and concluding with the appearance of Office of Education witnesses in February of 1976, to testify on the Administration's proposals.

STATE	0-500	501-1000	1001-1500	1501-2000	2001-2500	2501-3000	3001-3500	3501-4000	4001-5000	State Totals
IL	$\frac{49/1}{50}$	$\frac{11/3}{14}$	$\frac{0/7}{7}$	$\frac{0/22}{22}$	$\frac{0/25}{25}$	$\frac{0/8}{8}$	$\frac{0/3}{3}$	$\frac{0/2}{2}$		$\frac{60/71}{131}$
IN	$\frac{8/0}{8}$	$\frac{15/3}{18}$	$\frac{0/6}{6}$	$\frac{0/9}{9}$	$\frac{0/12}{12}$	$\frac{0/3}{3}$	$\frac{0/3}{3}$			$\frac{23/36}{59}$
IA	$\frac{18/0}{18}$	$\frac{6/4}{10}$	$\frac{0/4}{4}$	$\frac{0/9}{9}$	$\frac{0/13}{13}$	$\frac{0/4}{4}$	$\frac{0/1}{1}$			$\frac{24/35}{59}$
KS	$\frac{22/0}{22}$	$\frac{5/2}{7}$	$\frac{1/5}{6}$	$\frac{0/14}{14}$						$\frac{28/21}{49}$
KY	$\frac{8/0}{8}$	$\frac{1/6}{7}$	$\frac{0/9}{9}$	$\frac{0/8}{8}$	$\frac{0/1}{1}$	$\frac{0/1}{1}$				$\frac{9/25}{34}$
LA	$\frac{19/0}{19}$	$\frac{0/3}{3}$	$\frac{0/2}{2}$	$\frac{0/3}{3}$	$\frac{0/1}{1}$	$\frac{0/1}{1}$				$\frac{19/10}{29}$
ME	$\frac{9/0}{9}$	$\frac{1/0}{1}$	$\frac{0/2}{2}$	$\frac{0/3}{3}$	$\frac{0/4}{4}$	$\frac{0/3}{3}$	$\frac{0/3}{3}$			$\frac{10/15}{25}$
MD	$\frac{16/1}{17}$	$\frac{13/0}{13}$	$\frac{0/3}{3}$	$\frac{0/7}{7}$	$\frac{0/3}{3}$	$\frac{0/3}{3}$	$\frac{0/3}{3}$			$\frac{29/20}{49}$
MA	$\frac{29/0}{29}$	$\frac{3/3}{6}$	$\frac{0/7}{7}$	$\frac{0/19}{19}$	$\frac{0/19}{19}$	$\frac{0/10}{10}$	$\frac{0/14}{14}$	$\frac{0/6}{6}$	$\frac{0/1}{1}$	$\frac{32/79}{111}$
MI	$\frac{24/0}{24}$	$\frac{21/4}{25}$	$\frac{0/14}{14}$	$\frac{0/8}{8}$	$\frac{0/15}{15}$	$\frac{0/3}{3}$				$\frac{45/44}{89}$
MN	$\frac{20/0}{20}$	$\frac{10/2}{12}$	$\frac{0/4}{4}$	$\frac{0/5}{5}$	$\frac{0/10}{10}$	$\frac{0/4}{4}$	$\frac{0/1}{1}$			$\frac{30/26}{56}$
MS	$\frac{23/2}{25}$	$\frac{4/6}{10}$	$\frac{0/6}{6}$	$\frac{0/2}{2}$	$\frac{0/1}{1}$					$\frac{27/17}{44}$
MO	$\frac{23/0}{23}$	$\frac{4/5}{9}$	$\frac{0/11}{11}$	$\frac{0/8}{8}$	$\frac{0/14}{14}$	$\frac{0/2}{2}$	$\frac{0/1}{1}$			$\frac{27/41}{68}$
MT	$\frac{7/0}{7}$	$\frac{2/0}{2}$	$\frac{0/0}{0}$	$\frac{0/3}{3}$						$\frac{9/3}{12}$

STATE	0-500	501-1000	1001-1500	1501-2000	2001-2500	2501-3000	3001-3500	3501-4000	4001-5000	State Totals
SD	$\frac{0/0}{0}$	$\frac{7/0}{7}$	$\frac{0/3}{3}$	$\frac{0/5}{5}$	$\frac{0/1}{1}$					$\frac{7/9}{16}$
TN	$\frac{22/1}{23}$	$\frac{1/6}{7}$	$\frac{0/19}{19}$	$\frac{0/8}{8}$	$\frac{0/4}{4}$	$\frac{0/2}{2}$	$\frac{0/1}{1}$			$\frac{23/41}{64}$
TX	$\frac{88/0}{88}$	$\frac{0/9}{9}$	$\frac{0/24}{24}$	$\frac{0/9}{9}$	$\frac{0/6}{6}$	$\frac{0/1}{1}$				$\frac{88/49}{137}$
UT	$\frac{8/0}{8}$	$\frac{1/3}{4}$	$\frac{0/1}{1}$	$\frac{0/0}{0}$	$\frac{0/1}{1}$					$\frac{9/5}{14}$
VT	$\frac{1/0}{1}$	$\frac{4/0}{4}$	$\frac{1/1}{2}$	$\frac{0/4}{4}$	$\frac{0/3}{3}$	$\frac{0/3}{3}$	$\frac{0/2}{2}$	$\frac{0/2}{2}$	$\frac{0/1}{1}$	$\frac{6/16}{22}$
VA	$\frac{26/0}{26}$	$\frac{12/1}{13}$	$\frac{0/5}{5}$	$\frac{1/7}{8}$	$\frac{0/9}{9}$	$\frac{0/4}{4}$	$\frac{0/3}{3}$			$\frac{39/29}{68}$
WA	$\frac{27/0}{27}$	$\frac{6/1}{7}$	$\frac{0/2}{2}$	$\frac{0/2}{2}$	$\frac{0/5}{5}$	$\frac{0/3}{3}$				$\frac{33/13}{46}$
WV	$\frac{15/0}{15}$	$\frac{0/2}{2}$	$\frac{0/2}{2}$	$\frac{0/3}{3}$	$\frac{0/2}{2}$	$\frac{0/2}{2}$				$\frac{15/11}{26}$
WI	$\frac{15/0}{15}$	$\frac{15/1}{16}$	$\frac{0/4}{4}$	$\frac{0/8}{8}$	$\frac{0/7}{7}$	$\frac{0/1}{1}$	$\frac{0/3}{3}$			$\frac{30/24}{54}$
WY	$\frac{8/0}{8}$									$\frac{8/0}{8}$
Islands	$\frac{11/1}{12}$	$\frac{0/3}{3}$	$\frac{0/12}{12}$							$\frac{11/16}{27}$
TOTALS	$\frac{1013/16}{1029}$	$\frac{403/124}{527}$	$\frac{12/329}{341}$	$\frac{1/331}{332}$	$\frac{0/322}{322}$	$\frac{0/155}{155}$	$\frac{0/92}{92}$	$\frac{0/30}{30}$	$\frac{0/5}{5}$	$\frac{1429/1404}{2833}$

[1] Source: Original compilation research by COPUS RESEARCH PROJECT from the NCES Postsecondary Education Directory, Colleges and Universities, 1975-76, NCES 76-130.

SUPPLEMENTAL VIEWS

This bill is vital for the continuation of the broad range of federal higher education programs, particularly student aid, which will expire this June 30 unless we act. The bill accomplishes a number of important technical changes in the law to facilitate the smooth and more effective operation of the programs. It also makes a valuable contribution in focusing our attention on the "new" nontraditional student and the laudable development of more community-based educational experiences.

However, I believe it is important to emphasize that this bill provides for only a one year extension of most of the programs. There are a number of crucial problems in federal support for higher education that still need to be addressed. Central among these is student aid where we have a collection of programs that have grown by accretion rather than following any carefully conceived plan. A further reexamination of student aid is needed to create a consistent and integrated federal strategy to attain equal educational opportunity. Such a strategy would provide for assistance to students to attain access to not just a postsecondary education but to the postsecondary education that students' talents and interests lead them to chose.

This is an issue that urgently requires our attention in the next Congress, and I feel very strongly that a bill of one year's duration is all that is appropriate at this time.

Frank Thompson, Jr.
Shirley Chisholm.
Michael Blouin.
Robert Cornell.
Paul Simon.
John N. Erlenborn.

Mr. **Simon**. I am sorry that I have to get over to the Rules Committee. They may not be too patient. May I express my apologies to you. I hope you understand.

The record will remain open for another 2 weeks for any who wish to add statements to it. This concludes our meeting. Thank you very much.

[The following additional information was submitted for the record:]

PREPARED STATEMENT OF HON. JAMES J. DELANEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I appreciate this opportunity to testify before you today on the need for a national priority system of equitable aid to education.

On February 9, 1977, along with a number of my colleagues, I introduced House bill H.R. 3403. It is in major respects similar to S. 834 currently pending before the Senate Finance Committee. Both measures would grant a tax deduction up to $1,000 per individual family member for tuition paid by a taxpayer to educate himself, his spouse, or his dependents. Both bills provide the option of a $250 tax credit, in lieu of the deduction, to ensure adequate coverage for lower-income groups. And both are aimed at the average American family struggling to get together tuition for sons and daughters at public and private institutions from elementary through graduate school throughout the Nation.

The Tuition Tax Relief Act of 1977 is a long overdue measure of fairness for our parents and students. While every citizen is feeling the effects of the current economic crunch, it is lower- and middle-income Americans who are especially hard-pressed during these difficult times. It is imperative that some measure of relief be afforded them to insure that our Nation's youth are not denied the quality education they so rightly deserve.

Such a tuition deduction/credit represents more than simple tax justice—from a rigorous cost-benefit perspectives, it makes sound economic sense. In my own State of New York, there are over 129 private colleges. A good number of these institutions are teetering on the edge of bankruptcy, many are dipping into their endowments to meet day-to-day expenses, and all have been forced to raised tuition skyhigh because of the dual effects of inflation and recessions. Ten high schools and twenty elementary schools in Brooklyn and Queens alone have been forced to close in the last 5 years. And we are witnessing a severe financial crisis among institutions traditionally supported through our city and State.

A number of times in recent sessions, the Senate has seen fit to include an education tax credit in legislation it has passed. At the end of 1976, for example, a credit of $250 was adopted by the Senate as part of its Tax Reform Act of 1976, but it was lost in the shuffle during conference consideration.

Mr. Chairman, both the Democratic and Republican campaign platforms of 1976 contained pledges of adequate, equitable education aid. My colleagues on both sides of the aisle and in both Houses are supporting this legislation in the 95th Congress. The time to act is now.

PREPARED STATEMENT OF HON. HERBERT E. HARRIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

I want to commend the task force for conducting this hearing on proposals to allow tax credits for higher education expenses. The average middle income taxpayer needs assistance to finance his or her son's or daughter's college education. The tax credit approach provides a simple and direct means of granting needed assistance.

In the 94th Congress I introduced H.R. 9684 and today am reintroducing the bill. My bill covers the broad spectrum of postsecondary education. More than 10 million students at a variety of institutions—public and private, 4-year and 2-year—would benefit from this legislation. Colleges, universities, community and junior colleges, business schools, trade schools, technical institutions, and vocational training centers are all eligible institutions under my bill.

NEED FOR ASSISTANCE

Middle income families find it increasingly difficult to pay for college expenses. They need help. The average total cost of obtaining a college education at a 4-year public institution has climbed to $2,790 per year; and, the average total cost at a 4-year private institution has risen to $4,568 per year. Over the last 5 years, the cost of attending a 4-year public institution has increased by 39 percent; and, the cost of attending a 4-year private institution has increased by 36 percent.

With medical, food and utility bills and other expenses for basic necessities greatly inflated, increased education costs cut into already tight budgets. High unemployment and underemployment have made it particularly difficult for many families and individuals to finance a college education. Is it any wonder that our students' parents, who typically pay about half of the cost of higher education, can no longer bear the burden of increasing education expenses?

DIRECT ASSISTANCE TO STUDENTS AND THEIR FAMILIES

My bill provides direct assistance in meeting the cost of higher education by allowing a tax credit for a portion of expenses for tuition, fees, books, supplies, and equipment. Specifically, a taxpayer under my bill could claim a tax credit of:

100 percent of expenses not exceeding $200;
75 percent of expenses over $200 but not exceeding $500; and
25 percent of expenses over $500 but not exceeding $1,500.

For a student whose expenses for tuition, fees, books, supplies and equipment equal or exceed $1,500, the student could claim a tax credit of $675. The following table indicates the assistance a resident of Virginia attending one of the Commonwealth's public institutions would receive under my bill:

College	Approximate annual expenses for tuition, books, and certain fees	Tax credit	Percent of expenses offset by credit
George Mason University	$868	$517.00	59.6
Mary Washington College	970	542.50	55.9
Northern Virginia Community College	450	387.50	86.1
University of Virginia	884	521.00	58.9
Virginia Polytechnical Institute and State University	657	464.25	70.7
College of William and Mary	1,108	577.00	52.1

Although the assistance provided to those attending the least expensive schools is greater in terms of a percentage of the cost of attending college, the assistance to those attending the more expensive schools is greater in dollar amounts.

HIGHER EDUCATION ENROLLMENTS

In the Eighth Congressional District of Virginia we have a large number of students attending schools of higher education.

Almost 40,000 students are enrolled in the Northern Virginia Community College and 8,700 students attend George Mason University. Additionally, many other students, living in my district, attend one of the many fine public and private schools within the Commonwealth or elsewhere in the United States.

Furthermore, a large percentage of high school graduates in the Eighth Congressional District of Virginia are deciding to continue their education. This year, 75 percent of the seniors who graduated from the Fairfax County Public Schools in 1976 are attending some form of postsecondary education. In the city of Alexandria, 67 percent of the 1976 graduates continued their education, as did 41 percent in Prince William County.

NO RELIEF NOW

My bill attempts to correct a major deficiency in our tax laws. Presently, the law provides relief only for educational expenses incurred for training required to maintain one's position of employment. No relief is provided for students who are pursuing education or training for their career. Thus, a $50,000-a-year business executive can take a tax deduction for the expenses of a refresher course in management techniques; but a young college student, struggling to make ends meet, cannot take a deduction for any equivalent course. The former is considered to be incurring a "business expense" whereas the latter is merely incurring a "personal expense." I believe it is unfair that those who need the assistance most are ineligible under our present laws.

SUMMARY OF BILL

The following is a summary of the major provisions of my bill. Our bright young men and women deserve the opportunity to achieve their potential. Let us make sure that they have that chance.

MAJOR PROVISIONS OF THE BILL

Amends the Internal Revenue Code to allow tax credits for the expenses of higher education for the taxpayer, his or here spouse and any dependents of the taxpayer as defined under section 152(a) of the Internal Revenue Code.

Provides that the credit allowed would be an amount equal to the sum of the following:

A. 100 percent of allowable expenses not exceeding $200.

B. 75 percent of allowable expenses over $200 but not exceeding $500.

C. 25 percent of allowable expenses over $500 but not exceeding $1,500.

Provides that the credit allowable shall be proportioned according to the amount of expenses paid by each taxpayer in those cases where more than one taxpayer pays the educational expenses of an individual student.

Stipulates that the amount of the credit shall be reduced by an amount of 1 percent of the taxpayer's adjusted gross income that exceeds $25,000.

Defines the expenses of education as tuition, fees, books, supplies, and equipment. (Expenses for room and board are not included.)

Defines institutions of higher learning as those regularly offering education above the twelfth grade or those offering an accredited program of business, trade, technical or vocational postsecondary education.

Requires that the school be located in the United States including all U.S. possessions.

Stipulates that the total educational expenses for which an income tax credit may be claimed shall be reduced by the total amount of scholarships, fellowship grants and veterans' educational assistance allowances received by the individual student, prior to determining the net tax credit for which the taxpayer is eligible.

Requires that the student be a candidate for a baccalaureate or higher degree or attending school to fulfill an identified educational, professional or vocational goal.

Provides that any expense taken as a credit is thereby disallowed as a deduction.

Provides that the amendments would become effective only for tax years ending after the date of enactment of the Act.

PREPARED STATEMENT OF SENATOR ERNEST F. HOLLINGS FROM THE STATE OF SOUTH CAROLINA

The future of America is, I believe, directly dependent upon the education of its citizens. As our population grows, more and more demands are made for an educated people to meet the challenges of our complex society. As our standard of living increases, more and more people are demanding to be educated. But our Nation faces one of the greatest financial anomalies of our time. Although more people need to be educated and want to be educated, we do not have the financial wherewithal to accomplish it.

College-age students throughout our Nation are faced with the prospect of not being able to pursue higher education because their parents simply cannot afford the financial burden; banks are not granting educational loans because they can get better interest rates elsewhere, and the cost of education continues to soar. The cost of education will continue to grow. As high as college expenses are at the present, the amount to cover tuition and fees now covers only a fraction of the total instructional cost of education. Clearly, without endowments, public funds, contributions from alumni and private foundations, most of our institutions of higher learning would be financially bankrupt. Long overdue pay increases for college professors and instructors and the rising cost of constructing new buildings increase total cost factors. The increasing number of high school graduates from lower income brackets are demanding a college education, which in turn absorbs immense amounts in the form of scholarships and loans. While private donations are rising, they still do not meet the demand. The institutions cannot possible absorb the greater share of these costs. Consequently, parents and students must shoulder the burden of these educational expenses.

Crippling inflation has in many cases wiped out long-term savings plans of parents for the college education of their children. High interest rates and tight money preclude adequate student loan programs. I have literally hundreds of letters in my files from students and parents complaining that they will not be able to continue their education without the benefit of some financial assistance. I am sure that this experience is true throughout the Nation. The most frightening fact in reality is that educational costs are spiraling above the normal increases in the cost of living, and higher than the average wage earner's salary.

In the Senate, I have introduced S. 96 which gives a tax credit to middle-American families caught in the financial vise of higher education costs, by partially reimbursing them for the cost of providing their children with an education at a trade school or college. This measure gives the middle-income family a tax break. It helps the parent against the rising cost of education. It helps get the economy moving again. The plan provides a tax credit of up to $325 for part of the expenses incurred for a dependent's tuition, books, and equipment. What that means is that each year you subtract from the amount of taxes you owe the Federal Goverment up to $325 for each child's higher education. In the case of a taxpayer with an adjusted gross income exceeding $25,000, the credit is reduced on a pro rata basis. It applies to public universities. It applies to private colleges. And it applies to trade schools and technical education costs.

To those who would argue that such a plan would cut the Federal budget as another expenditure, I would suggest to them that it is an investment we cannot afford to ignore. Although we have over 8 million people enrolled in instutitions of higher learning, at this present minute there are literally hundreds of thousands more who would like to be so engaged but are financially precluded. Certainly the likelihood of a young man or woman attending college is directly related to family income. On the other hand, when the family is faced with the prospect of spending in excess of $15,000 for a 4-year education per child, it is unrealistic to imagine that a population can continue to maintain the staggering financial burden for college education.

PREPARED STATEMENT OF KENNETH SHAW, PRESIDENT, SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE

Honorable Members of the task force, while expressing my appreciation for this chance to share my ideas on complex and controversial issues you are addressing, I want to indicate my understanding of the intense time pressures under which you are all operating. The brevity of my remarks will try to demonstrate this; I know you will reciprocate by realizing that there is a great deal more to say on the subject of College Tuition Tax Credit than I will volunteer this morning.

Formerly there was a commonplace distinction between formal schooling and what was called the "school of hard knocks," the hard world of day-to-day adult experience. At present, that difference is so blurred as to be meaningless. In fact, were I in a negative frame of mind, I would contend that recent developments have brought so many hard knocks to the situation of higher education and those we serve that the so-called world outside the ivory tower is comparatively a bed of roses.

However, my view is that we have all learned some valuable lessons from recent experience, on which we can establish some policy priorities for both the long and the short range, along with some safeguards to prevent the deterioration of recent improvements and the dilution of possible devices for future relief. More and more, we have witnessed a broadening of the interrelationships between the practical world of work, formal research and learning at campuses both public and private, and an emerging recognition that the time of retirement can be used for fuller humane development. The notion of college as a benign concentration camp at which the rite of passage from adolescence to responsible adulthood is accomplished with the acquisition of career skills combined with the sowing of wild oats is simply obsolete. We must recognize that any citizen of value to the society of the future must continue the process of education as a lifetime commitment.

This implies an overriding national interest in the nurturing of our present education resources, along with a basic policy of maximum feasible access of all citizens to these resources. This must be regarded as a public good to be encouraged with both urgency and prudence. Right now, we are confronted by the emergent recognition that the emphasis of the sixties in creating access for low-income minorities has produced an intense squeeze on the middle class. What is properly construed as a right for the poor, and remains the privilege of the rich, has become the crushing cross of the middle class. The true backbone of a healthy society is becoming more and more discouraged from strengthening its brains and expanding its heart. If you do not discover proper incentives for this great spectrum of our taxpaying constituents, our Nation will be facing a human energy crisis far more dangerous, cruel, and unjust than the one dominating the headlines right now.

In sorting through the several incentive proposals currently before you, let me ask you to keep the following in mind.

(1) In the present generation, there is a "sibling squeeze" wherein families are being confronted with two, and sometimes three, students seeking a higher education at the same time. For these families, immediate relief is needed, especially if the integrity of this root institution is not to be torn by Solomon-like decisions by parents as to how limited resources are to be apportioned. Tax credits, I submit, are one good way to attack this situation.

(2) The programs in place for lower income minorities must not be lost in the shuffle. They represent a recognition of injustice and social imbalance which is still far from being redressed. A heavy body of evidence indicates that high tuition and fee costs have a seriously depressing effect on all enrollments, thus weakening our schools institutionally and creating in effect a policy of discouraging all our citizens from improving themselves educationally. There is no room for "trade-off" here.

(3) Closer attention must be paid to the so-called "part-time" student, who is making a positive social contribution as well as improving skills and appreciation at the sacrifice of available leisure time. The median age of the student body at Southern Illinois University is approaching 25; all indications point to this as a national trend with great promise for the future.

(4) Any program of relief or incentive must have safeguards to prevent existing institutions from simply using the increased benefits to further increase tuitions and relieve present budgetary stringencies. In this case, no one would profit but harried administrators and those who would renege local and State obligations, as well as the massive support we are going to continue to require from the private sector.

You have no simple task before you. However, a prudent and generous program of tax incentives could be an extremely valuable device. As you go about your deliberations, let me urge that you support any actions you take with an intensive and exhaustive study of the fiscal implications of the program by the General Accounting Office. Our present situation is fraught with problems and pregnant with promise. Not only is the future of education in your hands, but the very keel—and wheel—of our ship of state, which is embarking on the third century of our great national voyage.

OHIO WESLEYAN UNIVERSITY,
May 11, 1977.

HON. PAUL SIMON,
Chairman, Subcommittee on Tax Expenditures, Government Organization, and Regulations, Washington, D.C.

DEAR REPRESENTATIVE SIMON: The Board members of the Great Lakes Colleges Association strongly support the Congressional interest in the nation's middle-income families. Current Federal student financial aid programs do not reach this sector of the population. At various times tax credits have been proposed as a device to provide appropriate relief. We have not taken a formal position as a Board with relation to tax credits. However, we do recommend that if such legislation is considered that the tax credit be focused on those taxpayers making a sizable commitment to postsecondary education expenditures in any particular tax year and whose incomes presently exclude them from existing student aid programs. A tax credit on this model would assist parents with several children enrolled simultaneously in state institutions as well as those paying the higher price of an independent college and university education.

We submit that a tax credit to aid middle income families in meeting the expenses of educating their dependents should require a contribution from the taxpayer before the provision begins to operate. For instance, a family might be expected to pay ten per cent of taxable income for postsecondary education expenses before becoming eligible for tax credits reaching a limit of perhaps $1,000.

This provision would not widen the tuition gap between public and private institutions which have different pricing systems. Federal assistance through the Basic and Supplemental Education Opportunity Grants now supports dependents from many families with annual incomes of up to $15,000. The tax credits suggested here should fit in for the next unaided level.

Example: A family with one child paying $3,000 per year in college expenses and earning a taxable income of $25,000 does not now qualify for financial aid from federal or most state or college programs. Under the proposed plan the family would qualify for a tax credit of $500. If the family income were $30,000 or more no tax credit would be earned. Thus families with substantially higher incomes would receive no tax credit unless they were educating several children simultaneously.

Tax credit in this form would be worth exploring as an additional element in a federal policy to promote access to appropriate postsecondary education regardless of family income level.

Sincerely yours,

THOMAS E. WENZLAN,
Chairman, Great Lakes Colleges Association.

PREPARED STATEMENT OF HON. MARIO BIAGGI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

TUITION RELIEF IS URGENT!

Mr. CHAIRMAN: It is my pleasure to have this opportunity to offer testimony to the House Committee on the Budget in support of H.R. 6128, the Tuition Relief Act of 1977. I am proud to be a cosponsor of this vitally important measure, and am gratified that your committee has afforded me this occasion to discuss the merits of this bill.

It is most unfortunate that sharply rising costs in education have made the fundamental privilege of formal learning a virtual luxury for thousands of Americans. This is graphically displayed by their widespread difficulty in being able to attend, or have their dependents attend, private schools and universities. Many Americans are faced with a fiscal irony with respect to education. Their tax dollars are used to support public education, even though their children are not attending public schools. When these parents and taxpayers look for the financial means to attend or send their offspring to a school of their choice in the private sector, the monetary relief is not available to them.

H.R. 6128 is designed to provide the fair and urgently needed assistance for these average hard-working American families struggling to meet tuition expenses to educate oneself, a spouse, or dependents. Primarily, it moves for a $1,000 "above line" tax deduction, per individual educated, for those who do not ordinarily itemize their deductions. At the same time, it offers a corresponding alternate option of a $250 tax credit which can advantage people in lower income categories, permitting their more equitable treatment under the law.

These aids are applicable throughout the public and private educational spectrum, encompassing all institutions charging tuition from the elementary through the university levels. It will have particular, but not exclusive, benefits for those wishing to attend the private schools and universities. This bill appears to have overcome first amendment objections in that it in no sense provides "traditional parochiad", which has been opposed in the past within the State arena. Instead, it allows the individual taxpayer to apply his benefits to tuition in the same manner used when paying veteran educational benefits. Nor, is the suggested benefit far different from deductions for charitable contributions. Significantly there, as here, the taxpayer obtains his help from the withholding of his own tax funds. I find it especially appealing that this approach does not enlarge the Federal bureaucracy.

I commend the sponsor of this meaningful legislation, my good friend and colleague from New York, Congressman Delaney, for his determination and painstaking efforts throughout his long and memorable congressional career on behalf of equal educational opportunities for all Americans. I support his viewpoint that this bill represents not only simple tax justice, but also sound economic sense over the long run for the country. I applaud the initiative and work of this committee in their study and evaluation of this notable measure. I am confident that my colleagues will act favorably on this bill this year so that equitable aid to education can become a reality for our people as soon as possible.

We can be mindful that this legislation was given very serious consideration by the last Congress. An educational tax credit passed the Senate and went as far as Conference Committee. H.R. 6128 is well-balanced, containing sensible and well-thought-out limitations as to amounts and dependents. It is "family oriented" in concept. This legislation enjoys wide bi-partisan support within Congress. It is strongly supported by community and religious groups, as well as many in the educational community. Members of my own constituency continue to inundate my office with letters of support.

As a member of the House Education and Labor Committee, I am especially supportive of this measure. Our committee provides the necessary funds for education programs from the elementary to the postsecondary level. In this regard, this legislation is highly complementary to these efforts to provide the opportunity for more children to benefit from an education. I fully intend to continue my support of this legislation until it achieves final congressional action.

I believe there is nothing more essential to the growth of our country than education. It is the foundation of development, a basis for quality standards, and a vital means of upward mobility for our populace. Also, we must remember that this Nation was established on the principle of equal opportunity for all. And this must apply to education. I say the time for tuition relief is now!

Prepared Statement of Karl Rove, Chairman, College Republican National Committee

Tuition tax credits are the best way of allowing parents and college students to finance their own educations, prevent expensive administrative costs, and respond to student desires on campus.

As chairman of the College Republican National Committee, the Nation's largest student political action organization, with over 1,000 chapters and over 100,000 members across the Nation, I endorse student tuition tax credits. We are pleased to support the 1976 Republican platform in this area.

You've seen enough statistics in previous testimony about the costs of various programs and the increasing costs faced by college students. Allow me to get away from these and cover something I'm familiar with after traveling to some 100 campuses in the past 2 years: the mood of college students, and what types of aid they desire.

First, tax credits would reduce Federal harassment of students in two ways. Any tax money the Federal Government returns to students now has strings attached to it. Long strings: Title IX programs, affirmative action employment programs and other regulations and paperwork colleges must comply with before a student can be helped.

The other harassment is the embarassing steps students must go through to get any aid. Students and their parents must fill out a "Parents' Confidential Statement" and possibly other forms in order to qualify. And I'm still convinced the only way you prove need with such applications is to send it in postage due!

Many students are reluctant to participate in present programs because of this harassment. A program of tax credits wouldn't suffer from this problem.

Second, college students want to be able to make their own choices. Too many times, their choice is determined not so much by the amount of financial aid available or the quality of an institution, or how it matches their educational needs; but rather by the quality of financial aid administration at a particular college or university.

Tax credits will leave the money in the students' hands to make their own decisions. Unfortunately, some officials seem to approach this question as if the Government were entitled to every tax dollar instead of having to justify every need.

Third, I think students want to be independent. Sure, they may tell you as parents they want you to foot the entire bill, but most feel guilty accepting such aid. Many feel guilty taking tax dollars in the form of Federal assistance from their own peers who are out working instead of going to college.

Allowing these students to use more of their own financial resources to attend college would help both their self-respect and their pocketbooks.

While the increasing financial squeeze on middle-income students makes tax credits a real need, I suggest we need them whether or not those economic conditions exist. Tax credits eliminate a great many administrative costs—and provide real tax relief to middle-income families. Some would suggest they don't provide enough relief—but this is a question of specifics rather than principles.

Some also say the tax structure is an inappropriate vehicle to provide economic relief to students and their families for increased college costs.

Under an ideal system—I would agree. Ideally, the tax system should be neutral as far as any market or social policy is concerned. But it's not, and there's no indication the Carter administration wants to change that. If the tax system is going to be used as a policy tool, it should be used to encourage groups such as students from middle-income families who simply want to provide for themselves without taking Government handouts.

Some say tax credits for postsecondary education costs undermine the whole array of student financial aid programs created by Congress: grants, work/study programs, and loans.

This is a question specific proposals can answer, but tax credits shouldn't be the only form of financial relief Congress provides for middle-income students and their families. For instance, the "Higher Education Trust Fund" idea advanced by Congressman Hamilton Fish has real potential, as does the removal of the earnings limitation on students receiving social security benefits because their parents died while of working age.

Some suggest the guaranteed student loan program is the most appropriate vehicle to help students from middle-income families. Testimony in the Congressional Record late in April indicated the program had failed. The GSL program simply doesn't reach large numbers of middle-income students—in fact, middle-income students take advantage of loan programs in only slightly larger numbers than lower income students. Because of the capital shortage, and because of administrative hassles, students and banks are discouraged from participating.

Just as most other forms of credit allocation fail, so does Federal intervention in the area of student loans.

Besides, these people seem to be suggesting middle-income students should either mortgage themselves for years, or work for years in order to be able to attend college. While other groups receive more aid with less personal effort. Many students ask, "Why should one group be entitled only to loans" (and in some cases not even that), while others are entitled to direct grants. I think there's a question of equity here—a question for which tax credits would provide a simple, fair answer. At present, lower income students receive more than twice as much from grant programs as do middle-income students. The middle class bear the burden of the taxes, but their children get the short end of the stick in terms of assistance with tuition.

Perhaps this brings us to the basic conflict—pointed out by the rather curious objection by some people to tax credits—that more than $1 billion is "lost" through tax expenditures for postsecondary subsidies. This is a simple question of semantics—I don't think the money is lost. Rather the students and taxpayers gain it back.

I think the basic disagreements on tax credits are the same disagreements on taxes in general. Republicans, and in fact, most Americans, would say taxpayers deserve to keep more of their earnings. Others would say the Government is entitled to a larger portion of a citizen's income.

Well, I think they'd be interested to know the mood of the campuses favors the first. Students know the middle class is getting squeezed—and they want it stopped.

I'm including with this testimony some of the petitions our organization circulated all over the Nation asking for fair treatment for middle-income students.[*] I hope Congress can provide this with tax credits.

[Whereupon, at 12 p.m., the task force was adjourned.]

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[*] The petitions referred to may be found in committee files.